COUNTY OF SANTA CLARA

Single Audit Reports

Basic Financial Statements with
Federal Compliance Section

For the Fiscal Year Ended June 30, 2013

MGO Certified Public Accountants.

COUNTY OF SANTA CLARA
Single Audit Reports
For the Fiscal Year Ended June 30, 2013

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Single Audit Reports
For the Fiscal Year Ended June 30, 2013

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MGO Certified Public Accountants.

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Oakland

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Independent Auditor's Report

The Board of Supervisors
County of Santa Clara
San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Santa Clara, California (the "County"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing Authority of the County of Santa Clara; FIRST 5 Santa Clara County; the Santa Clara County Health Authority; the County Sanitation District 2 – 3 of Santa Clara County; the Santa Clara County Vector Control District; the Silicon Valley Tobacco Securitization Authority; the Santa Clara County Tobacco Securitization Corporation; and the Santa Clara County Central Fire Protection District, the South Santa Clara County Fire District, and the Los Altos Hills County Fire District (collectively, "Fire Districts"), which collectively represent the following percentages of the assets, net position/fund balances, and revenues/additions of the following opinion units.

Opinion Unit	Assets	Net Position/ Fund Balances	Revenues/ Additions
Governmental activities	3.3%	15.0%	4.4%
Business-type activities	0.5%	0.8%	0.2%
Aggregate discretely presented component units	100.0%	100.0%	100.0%
Aggregate remaining fund information	1.7%	2.0%	1.0%

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Santa Clara County Health Authority, the Santa Clara County Tobacco Securitization Corporation, and the South Santa Clara County Fire District were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principles

As described in Note 1(o) to the basic financial statements, effective July 1, 2012, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements;* Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and 34;* Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;* and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

Unfunded Actuarial Accrued Liabilities – County's Postemployment Health Care Benefit Plan

As described in Note 12(f), based on the most recent actuarial valuation of the County's postemployment health care benefit plan, the County's independent actuary determined that, as of June 30, 2013, the value of the County's unfunded actuarial accrued liability was $1.88 billion. Also, actual contributions made by the County for postemployment healthcare benefits were significantly less than the actuarially determined annual required contributions. The County's actuarially determined annual other postemployment benefits cost for the year ended June 30, 2013 was $175.1 million and the County's actual contributions were $99.7 million. As such, as of June 30, 2013, the County's other postemployment benefits obligation increased $75.3 million, to $283.5 million.

Deficit Net Positions

As discussed in Note 2, several County internal service funds have deficit net positions at June 30, 2013, which include the Workers' Compensation, Retiree Healthcare, and Pension Obligation internal service funds with deficit net positions of $31.2 million, $129.2 million, and $46.1 million, respectively.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress and the budgetary comparison schedule – General Fund – budgetary basis, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 27, 2013, except for our report on the supplementary schedule of expenditures of federal awards for which the date is March 28, 2014

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County of Santa Clara
Management's Discussion and Analysis
Required Supplementary Information - Unaudited

As management of the County of Santa Clara (the County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i to vi of this report.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources by $1.61 billion (*net position*) at June 30, 2013. Of this amount, $237.4 million (*unrestricted net position*) may be used to meet the County's ongoing obligations to its citizens and creditors and $440.0 million (*restricted net position*) may be used for the County's ongoing obligations related to programs with external restrictions. The County's net investment in capital assets were $928.9 million. (See further detail in Table 1 on page 8).

The County's total net position increased by $0.7 million for the year. (See further detail in Table 2 on page 12).

At June 30, 2013, the County governmental funds reported combined fund balances of $870.4 million, an increase of $147.3 million from the prior year. Approximately 42.1 percent of the combined fund balances, $366.1 million, is available to meet the County's current and future needs.

The County's investments in capital assets increased by $159.6 million or 8.1 percent. (See further detail in Table 5 on page 19).

The County's total long-term debt, net of retirements of $44.4 million and additions of $647.3 million for the year, increased by $602.9 million or 36.5 percent during the current fiscal year. (See further detail in Table 6 on page 20).

At June 30, 2013, the County's unassigned fund balance for the General Fund was $227.5 million, 12.0 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. Required supplementary information is included in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all County assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the government-wide statements for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or significant portion of their costs through user fees and charges *(business-type activities)*. The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation and culture. The business-type activities of the County include a hospital—Santa Clara Valley Medical Center (SCVMC), three airports (Reid Hillview, Palo Alto and South County) and a sanitation district (County Sanitation District No. 2-3 of Santa Clara County).

Component units are included in the basic financial statements and consist of legally separate entities for which the County is financially accountable. Because of the governing board relationship and the exclusivity of County services, the financial operations of some component units are blended in the County's basic financial statements. These component units are the Santa Clara County Central Fire Protection District, South Santa Clara County Fire District, Los Altos Hills County Fire District, Santa Clara County Library, Santa Clara County Vector Control District, County Sanitation District No. 2-3 of Santa Clara County, Santa Clara County Financing Authority, Santa Clara County–El Camino Hospital District Hospital Facilities Authority, Santa Clara County Tobacco Securitization Corporation and the Silicon Valley Tobacco Securitization Authority. The Housing Authority of Santa Clara County, Santa Clara County Health Authority, and the FIRST 5 Santa Clara County are reported as discrete component units of the County.

The government-wide financial statements can be found on pages 23 – 25 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: *governmental funds, proprietary funds* and *fiduciary funds.*

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows* and *outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 26 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund. Data from other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements and schedules* elsewhere in this report.

The governmental funds financial statements can be found on pages 26 - 29 of this report.

Proprietary funds
The County maintains two kinds of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for one hospital—Santa Clara Valley Medical Center (SCVMC), three airports (Reid Hillview, Palo Alto and South County) and one sanitation operation (County Sanitation District No. 2-3 of Santa Clara County). *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its information services, fleet management, insurance, printing services, unemployment insurance, workers' compensation, employee benefits, pension obligations and retirees' healthcare. The internal service funds have been allocated between the governmental activities and business-type activities based on the relative percentage of use of the internal service funds in these activities.

Proprietary fund statements provide the same type of information as the business-type activities column in the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the SCVMC, which is considered a major fund. The financial statements of the nonmajor enterprise funds (Airport and Sanitation District) are combined into a single aggregated presentation. Similarly, the County's nine internal service funds are combined into a single aggregated presentation in the proprietary funds financial statements. Individual fund data for the enterprise funds and the internal service funds is provided in the form of *combining statements* section of this report.

The proprietary funds financial statements can be found on pages 30 - 33 of this report.

Fiduciary funds
The *Fiduciary Funds* are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds except for agency funds.

The fiduciary funds financial statements can be found on pages 34 - 35 of this report.

Notes to the Basic Financial Statements
The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 37 - 105 of this report.

Required Supplementary Information
The required supplementary information is presented concerning the County's progress in funding its obligation to provide pension and other postemployment benefits (OPEB) to its employees and the County General Fund budgetary comparison schedule. The County adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 107 - 119 of this report.

Combining Statements and Schedules
The combining and individual fund statements and schedules referred to earlier provide information for discrete component units, nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and certain fiduciary funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 121 - 185 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $1.61 billion (*net position*) at June 30, 2013. As stated earlier, net position may serve over time as a useful indicator of a government's financial position. When applicable, prior year numbers have been reclassified to make them comparable to the current year.

Table 1—Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2012	2013	2012	2013	2012	2013	Dollar Change	Percent Change
Assets								
Current and other assets	$ 1,990,384	$ 2,195,267	$ 332,666	$ 710,132	$ 2,323,050	$ 2,905,399	$ 582,349	25.1%
Captial assets	1,095,740	1,114,725	869,772	1,018,161	1,965,512	2,132,886	167,374	8.5%
Total assets	3,086,124	3,309,992	1,202,438	1,728,293	4,288,562	5,038,285	749,723	17.5%
Deferred outflows of resources	-	-	26,832	17,007	26,832	17,007	(9,825)	-36.6%
Liabilities								
Current and other liabilities	335,706	332,505	124,411	172,032	460,117	504,537	44,420	9.7%
Long-term liabilities	1,635,948	2,271,166	586,956	641,082	2,222,904	2,912,248	689,344	31.0%
Noncurrent derivative instrument liabilities	-		26,832	17,007	26,832	17,007	(9,825)	-36.6%
Total liabilities	1,971,654	2,603,671	738,199	830,121	2,709,853	3,433,792	723,939	26.7%
Deferred inflows of resources	-	15,236	-	-	-	15,236	15,236	100.0%
Net position:								
Net investment in capital assets	875,610	897,189	401,591	498,066	999,051	928,872	(70,179)	-7.0%
Restricted	428,846	438,990	141,681	494,390	429,847	440,029	10,182	2.4%
Unrestricted	(189,986)	(645,094)	(52,201)	(77,277)	176,643	237,363	60,720	34.4%
Total net position	$ 1,114,470	$ 691,085	$ 491,071	$ 915,179	$ 1,605,541	$ 1,606,264	$ 723	0.0%

In accordance with GASB guidance, the County reclassified $493.4 million of the primary government's total net position amounts from restricted to unrestricted and $466.4 million from net investment in capital assets to unrestricted. Additional information on the presentation can be found in Note 11 on page 83 of this report.

Assets and Deferred Outflows of Resources

The County's total assets and deferred outflows of resources increased $739.9 million or 17.1 percent primarily due to the following:

Governmental activities. Total assets for the governmental activities increased by $223.9 million or 7.3 percent. Current and other assets increased by $204.9 million. The primary reasons were from increases of $72.2 million in unrestricted cash and investments, $30.8 million due from other governmental agencies, and $35.9 million in restricted cash plus a reduction of $65.1 million in subsidy transfers to SCVMC in comparison to the prior year.

The increase in unrestricted cash resulted from improvements in the cash positions of numerous County programs. This includes $48.6 million governmental funds increases for property tax collections due to the recovery in residential and commercial property values which is articulated in County's general revenues portion on page 13 and $9.8 million in new revenues from Measure A, which passed in November 2012 to increase sales tax by one-eighth of a cent. In addition, there was a $13.8 million increase from Santa Clara County Central Fire Protection District due to sale of two fire stations located in Morgan Hill as well as recognition of Prop 1A revenues the State deferred since 2009.

The $30.8 million increase in amounts due from other government agencies resulted from:

- $25.5 million increase in the receivable from the State of California for the following:
  - $8.3 million increase due to a change in In-Home Support Services (IHSS) funding. The State replaced the IHSS funding with a Maintenance of Effort (MOE) requirement whereby the County is now required to pay the non-federal costs for IHSS services and administration, which will be reimbursed by the State of California.

    - $20.5 million increase due to one-time adjustments made by County of Santa Clara Social Services Agency for the CalWorks, Child Welfare Services – Temporary Assistance for Needy Families (CWS-TANF), CWS IV-E program, and Non-Assistance Food Stamps (NAFS) programs.
- $10.7 million increase in the receivable from the Federal government due to delayed payments related to the IHSS-Public Authority for the County's Social Services Agency.

The $35.9 million increase in restricted cash and investments was from funds accumulated for scheduled debt service payments.

Capital assets increased $19.0 million or 1.7 percent. Non-depreciable capital assets decreased by $36.8 million; whereas, depreciable capital assets increased by $55.8 million. Changes in capital assets will be discussed in the Capital Assets section on page 19 and Note 6 on page 61.

Business-type activities. Total assets for the business-type activities increased by $525.9 million or 43.7 percent. Current and other assets increased $377.5 million and capital assets increased $148.4 million. In addition, deferred outflow of resources decreased $9.8 million.

The increase in current and other assets was mainly due to increase in restricted cash and investments of $379.1 million as a result of the proceeds of cash and investments from the County's issuance of 2012 Series A lease revenue bonds and 2013 Series B general obligation bonds to rebuild and improve the seismically deficient medical facilities.

Changes in capital assets will be discussed in the Capital Assets section on page 19 and Note 6 on page 61.

Liabilities and Deferred Inflows of Resources

The County's total liabilities and deferred inflows of resources increased by $739.2 million or 27.3 percent mainly due to the following:

Governmental activities. Total liabilities for the governmental activities increased by $632.0 million or 32.1 percent due to an increase of noncurrent liabilities of $635.2 million net of a decrease of current and other liabilities of $3.2 million. With the implementation of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, the County recorded deferred inflows of resources in the amount of $15.2 million.

The decreases in current and other liabilities of $3.2 million occurred in the following account balances:

- Increase of $19.5 million in accounts payable due primarily from a $10.7 million increase in the IHSS program. Commencing July 1, 2012, the State replaced IHSS funding with a MOE requirement in which counties receive IHSS amounts directly from Federal government. However, once the counties costs exceed the total MOE level, excess funds will be paid to the State. In addition, there was an increase of $7.0 million in accounts payable mainly due to the accelerated timing of payments compared to the prior year.
- Decrease of $24.3 million in short-term debt payable as the County reduced its Teeter financing commercial notes balance from $109.3 million to $85.0 million.

The increases in other long term liabilities will be discussed further in the Long-term Debt section on page 20.

The $15.2 million increase in deferred inflow of resources due to implementation of GASB Statement No. 60. At June 30, 2013, the County recognized the present value of the future installment payments for service concession arrangement as receivable for $8.0 million and net book value of capital assets of $7.2 million.

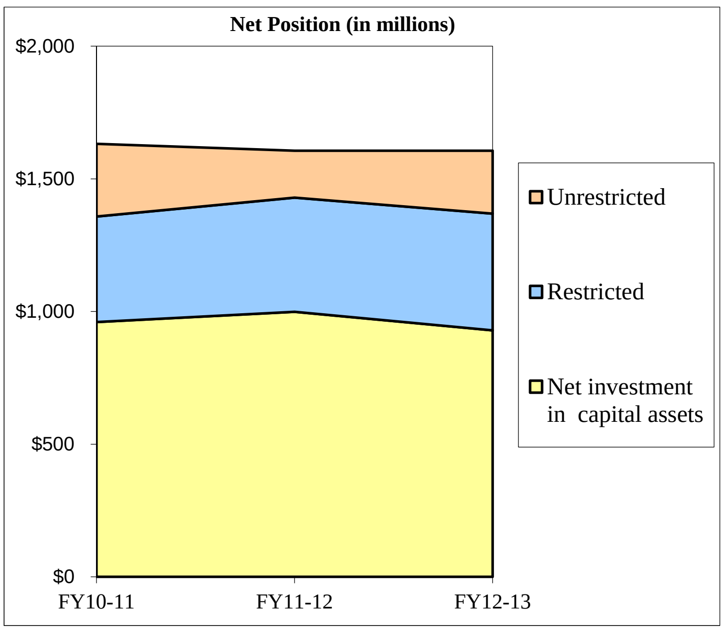
Business-type activities. Total liabilities for the business-type activities increased by $91.9 million or 12.5 percent from increases of $47.6 in current and other liabilities and $54.1 in long term liabilities, which were offset by a decrease of $9.8 million in derivative instruments liabilities. The increase in current and other liabilities resulted from an increase in third party settlements and accrued liabilities. The increase in long term liabilities was due to the issuance of 2012 Series A lease revenue bonds.

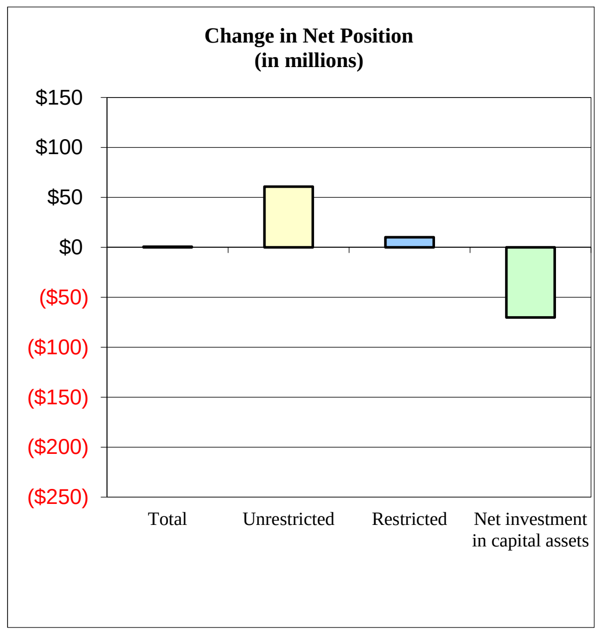
Net Position

The County's unrestricted net position of $237.4 million (14.8 percent) may be used to meet the County's ongoing obligations to citizens and creditors. The largest portion of the County's net position of $928.9 million (57.8 percent) reflects its investment in capital assets (e.g., land, buildings and improvements, infrastructure, and equipment and vehicles) net of accumulated depreciation, less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining $440.0 million (27.4 percent) of the County's net position represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the County reported positive balances in all categories of net position for its governmental activities and for its business-type activities with the exception of negative balances of $645.1 million and $77.3 million in unrestricted net position category of its governmental and business-type activities, respectively. The negative unrestricted net position balances were offset on the County-wide level through reclassifications of $493.4 million from restricted and $466.4 million from net investment in capital assets.

The County's net position increased by $0.7 million or 0.05 percent for the year. This change in net position is explained below in the context of the County's governmental and business-type activities.

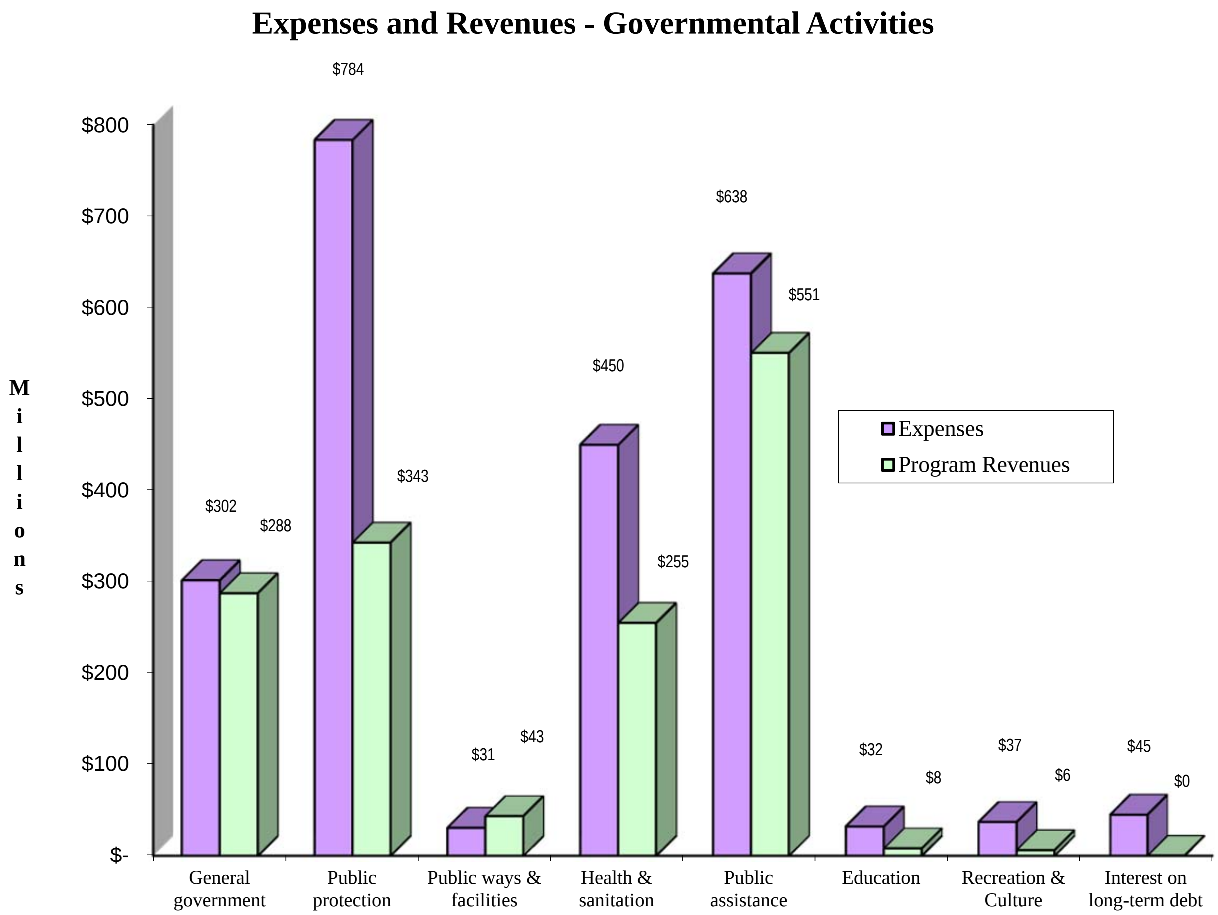




Governmental activities

The governmental activities decreased the County's net position by $423.4 million. Revenues exceeded expenses by $151.1 million. In addition, net transfers of $574.5 million were made to the business-type activities.

As an arm of the state government, the County provides various mandated services, such as public assistance, public health, and mental health. Revenues directly generated by or attributable to a specific governmental function are called program revenues. These include charges for services and restrictive (program specific) grants and contributions, both operating and capital. The following chart shows the County's program revenues and expenses for the year. Not included in this chart are the general revenues: taxes (property, business, and sales), unrestricted grants, investment income, gain on sale of capital assets, and other revenue. These general revenues are not shown by program, but are available to support the program activities countywide.



Changes in the County's net position from its governmental activities are explained in the context of changes in revenues and expenses:

Table 2—The Change in Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2012	2013	2012	2013	2012	2013	Dollar Change	Percent Change
Revenues:								
Program revenues:								
Charges for services	$ 266,010	$ 264,719	$ 780,736	$ 860,359	$ 1,046,746	$ 1,125,078	$ 78,332	7.5%
Operating grants and contributions	1,178,881	1,220,593	112,007	119,451	1,290,888	1,340,044	49,156	3.8%
Capital grants and contributions	5,860	9,482	7,589	7,234	13,449	16,716	3,267	24.3%
General revenues:								
Property taxes	775,768	824,370	-	-	775,768	824,370	48,602	6.3%
Sales and use taxes	5,284	14,487	8,692	8,692	13,976	23,179	9,203	65.8%
Other taxes	38,163	37,651	-	-	38,163	37,651	(512)	(1.3%)
Unrestricted grants & contributions	23,260	17,179	-	-	23,260	17,179	(6,081)	(26.1%)
Unrestricted investment income	21,411	7,041	1,456	1,177	22,867	8,218	(14,649)	(64.1%)
Securities lending activities	9		-	-	9	-	(9)	(100.0%)
Gain on sale of capital assets	3,361	4,424	-	-	3,361	4,424	1,063	31.6%
Other revenue	63,889	69,539	-	-	63,889	69,539	5,650	8.8%
Total revenues	2,381,896	2,469,485	910,480	996,913	3,292,376	3,466,398	174,022	5.3%
Program expenses:								
General government	278,128	302,106	-	-	278,128	302,106	23,978	8.6%
Public protection	763,368	783,619	-	-	763,368	783,619	20,251	2.7%
Public ways and facilities	42,508	30,712	-	-	42,508	30,712	(11,796)	(27.8%)
Health and sanitation	434,700	450,147	-	-	434,700	450,147	15,447	3.6%
Public assistance	626,696	637,603	-	-	626,696	637,603	10,907	1.7%
Education	34,455	32,179	-	-	34,455	32,179	(2,276)	(6.6%)
Recreation and culture	35,462	36,956	-	-	35,462	36,956	1,494	4.2%
Interest on long-term liabilities	37,176	45,059	-	-	37,176	45,059	7,883	21.2%
SCVMC	-	-	1,061,127	1,141,759	1,061,127	1,141,759	80,632	7.6%
Airport	-	-	3,351	3,581	3,351	3,581	230	6.9%
Sanitation District	-	-	2,086	1,954	2,086	1,954	(132)	(6.3%)
Total expenses	2,252,493	2,318,381	1,066,564	1,147,294	3,319,057	3,465,675	146,618	4.4%
Excess (deficiency) before transfers	129,403	151,104	(156,084)	(150,381)	(26,681)	723	27,404	102.7%
Transfers	(123,308)	(574,489)	123,308	574,489	-	-	-	
Change in net position	6,095	(423,385)	(32,776)	424,108	(26,681)	723	27,404	102.7%
Net position, beginning of year	1,108,375	1,114,470	523,847	491,071	1,632,222	1,605,541	(26,681)	(1.6%)
Net position, end of year	$ 1,114,470	$ 691,085	$ 491,071	$ 915,179	$ 1,605,541	$ 1,606,264	$ 723	0.05%

Revenues

The County's governmental activities' revenues increased $87.6 million or 3.7 percent to $2.5 billion. The program revenues increased by $44.0 million or 3.0 percent, while general revenues increased by $43.5 million or 4.7 percent. Over the past three years, the County's program revenues from its governmental activities have contributed about 64.1 percent of the cost of running those governmental programs. The general revenues support the programs by covering the remaining 35.9 percent of costs.

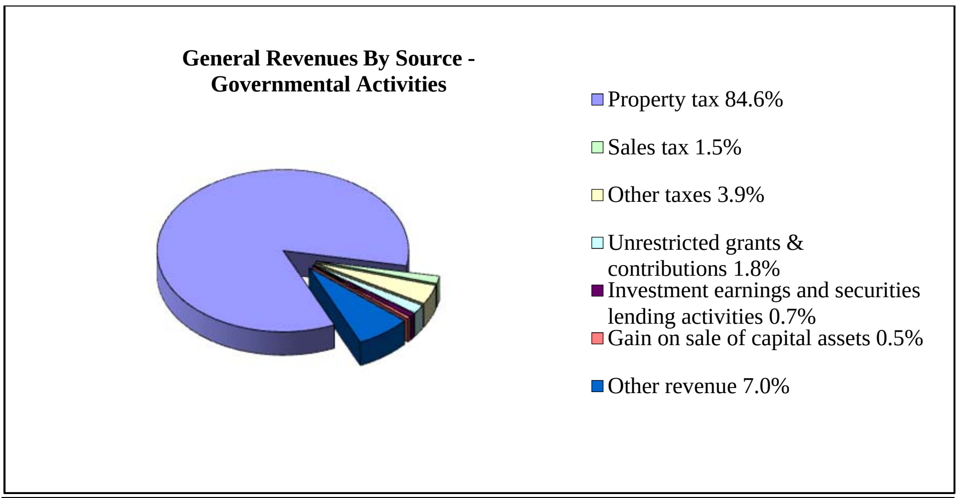
The largest source of program revenues for the County's governmental activities is federal and State grants and contributions, both operating and capital. These revenues amount to about 82.3 percent of the County's program revenues and about 49.8 percent of its total revenues. For the year, revenues from grants and contributions increased by $45.3 million or 3.8 percent. The grant and contribution amounts increased $41.7 million in operating grants and $3.6 million in capital grants.

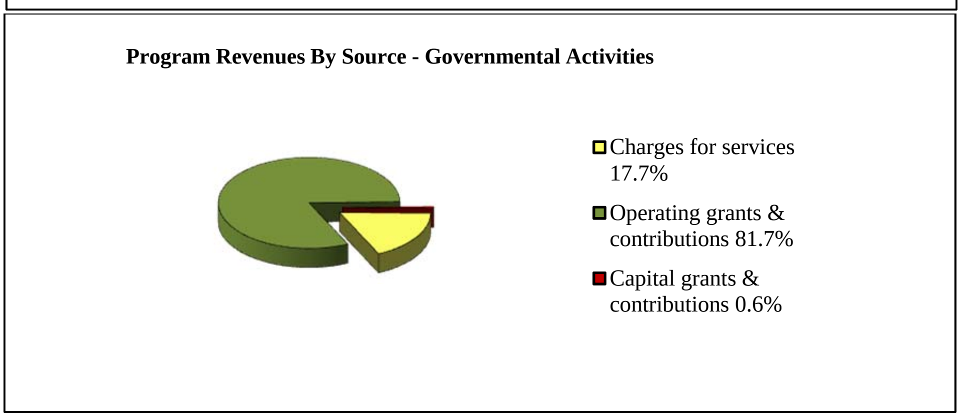
The County's governmental activities' general revenues increased by $43.5 million or 4.7 percent. General revenues are not directly related to governmental programs and include: taxes (property, business, and sales), unrestricted grants, investment income, gain on sale of capital assets, and other revenue. General revenues support government programs by defraying costs, which those programs cannot cover from their own revenues. Tax revenues are the County's second largest revenue source - grants and contributions being the largest. The County earned $876.5 million in tax revenues (property tax, sales and use tax, and other taxes) for the current year. This is approximately 89.9 percent of the general revenues and 35.5 percent of the total revenues. These general revenues provide the Board of Supervisors (the Board) with most of its discretionary spending ability. The reasons for these changes will be discussed in the governmental funds area.

The County's general revenues increased mainly due to:

- An increase of $48.6 million in property taxes primarily due to a 3.3 percent increase in total property assessed values. This increase resulted from an increase in property tax collection of $18.8 million in secured, $6.4 million in unsecured, $5.7 million in property tax in lieu of vehicle license fee, and $5.8 million in property taxes – retired benefit levy. In addition, there was an increase of $12.6 million in distribution of residual Redevelopment Dissolution Act (RDA) funds.
- An increase of $9.2 million in sales taxes mainly from Measure A which passed in November 2012 that increased sales tax for the county by one-eighth of a cent.
- A decrease of $14.4 million from investment earnings mainly due lower interest rates and cash balances in all governmental activity funds.

These topics will be discussed in Financial Analysis of the County's Funds section on page 16.





Expenses and Transfers

Expenses for governmental activities increased by $65.9 million or 2.9 percent. All categories experienced higher costs than in the prior year except Public Ways and Facilities and Education. The primary reasons for the changes are explained below:

General Government increased $24.0 million due to increase of $6.8 million in the salaries and benefits costs for general government departments as vacant positions were filled in FY 2013. Services and supplies also increased by $9.3 million mainly due to additional funding related to the purchase of various information technology items and emergency communication equipment that are below the County's capitalization thresholds. In addition there was an increase of $5.9 million related to pollution remediation expenses on the Almaden Quicksilver County Park. (See further detail in Note 15 on page 104).

Public Protection increased $20.3 million mainly due to increase of approximately 94 positions and a $9.3 million court order instructing the County to increase contributions to the Public Employee's Retirement System for certain correctional officers.

Public Ways and Facilities decreased $11.8 million as the Measure B road improvement program continue to wind down.

Health and Sanitation increased $15.4 million due to the following:

- $9.9 million in contract services primarily due to Mental Health Services Act and AB109 Realignment to deliver mental health care.
- $2.3 million salaries and benefit cost increase from approximately 10.0 percent increase in staffing due to vacant positions filled in FY 2013 for Mental Health services.
- $1.2 million increased in contract expenses due to realignment started in FY 2013 to serve Criminal Justice clients for substance abuse treatment.
- $2.2 million increase in a medical services at the County jail due to AB109 housing a parole violator in County jail.

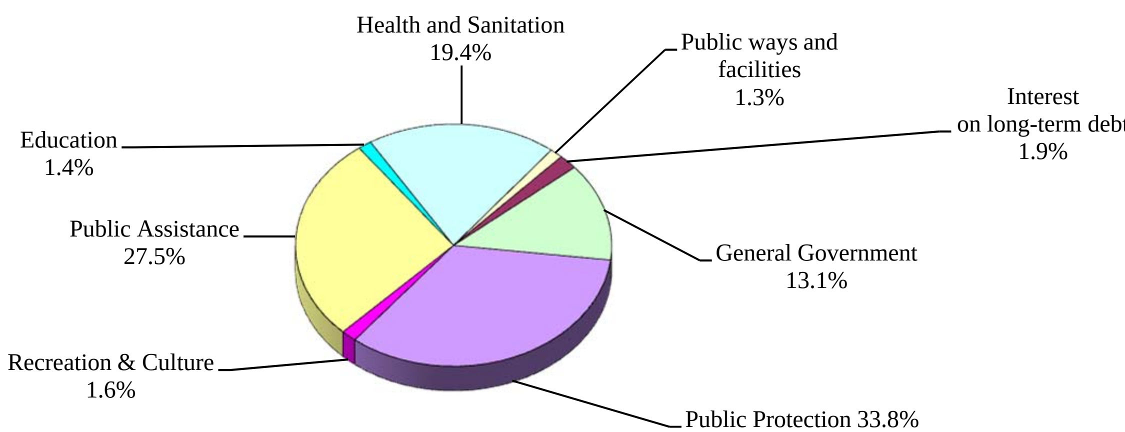
Public Assistance increased by $10.9 million as the County's cost for IHSS increased by $4.6 million due to increase in the Valley Health Plan premium rates and the number of IHSS enrollees for health benefits and $18.1 million increase from funding changes implemented by the State discussed earlier where the County is now required to pay the non-federal costs for IHSS services and administration. The increase was offset by $5.5 million reduction in Federal Wraparound Program and $6.8 million reduction in CalWorks benefits paid due to a change in eligibility that reduced the maximum time on aid.

Interest on Long-Term Debt increased by $7.9 million from two new debt issues: the 2013 Series B general obligation bonds and 2012 Series A lease revenue bonds.

Transfers increased by $451.2 million primarily due to the issuance and transfer of $490.4 million in general obligation bond proceeds to SCVMC net of a reduction of $39.4 million in operating subsidy to SCVMC. There was a one time bridge funding of $30.0 million to rebalance the SCVMC budget and $6.2 million for the EPIC implementation in FY 2012.

The following chart shows the County's expenses by functional category for the governmental activities.

Expenses By Function/Program - Governmental Activities



Business-type activities

Business-type activities increased the County's net position by $424.1 million. The business-type activities had a net loss before transfers of $150.4 million, which was partially offset by net transfers of $574.5 million.

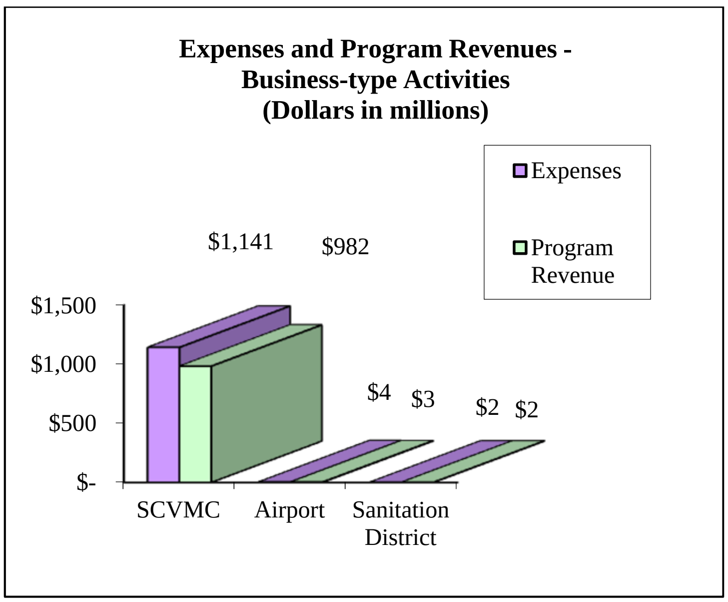
The largest of the County's business-type activities, SCVMC, had $1.1 billion in expenses and $981.9 million in program revenues for the year. This is about 99.5 percent of the program revenues of all business-type activities.

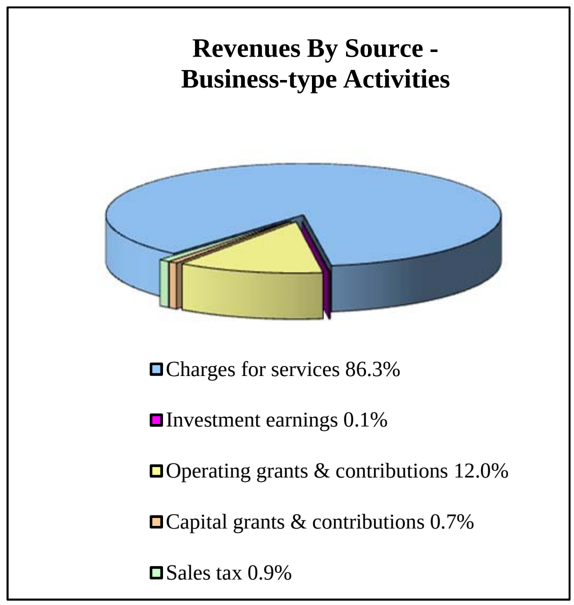
SCVMC's program revenues increased by $86.3 million or 9.6 percent which was mainly the result of increases in net patient revenues of $79.2 million due to increase in patients served. This increase is related to private insurance – hospital billing, indigent patients, and Santa Clara Family Health Plan copayments.

SCVMC's program expenses increased by $80.6 million or 7.6 percent due to increased purchased medical services of $43.8 million as utilization of medical service provided by outside providers rose. Also $8.6 million increase resulted from pharmacy claim services by outside providers, $10.8 million increase in emergency room and nursing medical professional fees, and $29.0 million increased in medical supplies purchases. The increase was consistent with the increases in net patient revenues for the year.

Transfers in increased by $451.2 million primarily due to the issuance and transfer of general obligation bond proceeds.

The other enterprise operations—airport and sanitation districts—are very small in size and did not change much in the year. The first chart below shows expenses and revenues by each business activity, while the second chart shows revenues by source for the business activities.





FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. When applicable, prior year numbers have been reclassified to make them comparable to the current year.

Governmental funds

The general government's functions are reported in the general, special revenue, debt service, and capital project funds. The focus of these *governmental funds* is to provide information on near-term inflows, outflows, and balances of *unrestricted resources.* Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance at the end of the fiscal year can serve as a useful measure of the County's net resources available for spending.

At June 30, 2013, the County's governmental funds reported total fund balances of $870.4 million, an increase of $147.3 million or 20.4 percent from the prior year. Approximately 42.1 percent of the combined fund balances, $366.1 million, constitutes fund balance that is available to meet the County's current and future needs (committed, assigned and unassigned). The remainder of the fund balance totaling $504.3 million is either in nonspendable form or restricted for specific spending. This includes $18.9 million of items that are not expected to be converted to cash (for example: inventories, prepaid amounts, and long-term notes receivable) and $485.4 million restricted for programs or other purposes.

For its governmental funds, the County's total revenues for the current fiscal year were $2.4 billion—an increase of $67.2 million or 2.9 percent from the last year. Total governmental fund expenditures increased by $56.7 million or 2.6 percent to $2.3 billion for the year. Primary reasons for these changes in revenues and expenditures for the governmental funds are explained in the framework of individual funds.

The General Fund is the chief operating fund of the County. Its unassigned fund balance was $227.5 million, at June 30, 2013, while its total fund balance was $323.8 million, a $49.0 million increase from the prior year. This was mainly due to an excess of revenues over expenditures of $81.5 million for the fiscal year, which was offset by $32.5 million in transfers to other County funds and other financing sources. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to total fund expenditures. The unassigned fund balance and the total fund balance represent 12.0 percent and 17.0 percent of the total General Fund expenditures at June 30, 2013, respectively. This is an improvement compared to the prior year's results where the unassigned fund balance and the total fund balance represent 11.1 percent and 15.1 percent of the total General Fund expenditures at June 30, 2012, respectively.

The nonspendable and restricted portions of the General Fund's fund balance were $17.0 million and $44.3 million, respectively. The remaining fund balance constitutes the spendable portion, which was $262.5 million. Of this amount, $227.5 million was unassigned fund balance. The remaining portions of spendable fund balance included $19.0 million of committed fund balance and $16.0 million of assigned fund balance. The committed portion represents amounts set aside by the County's highest level of decision-making authority, the Board of Supervisors, for specific purposes. The assigned amounts include items earmarked by County management and include litigation reserves, amounts encumbered for future purchases, and amounts to be used for future operations.

General Fund revenues and expenditures for the year were $1.98 billion and $1.90 billion, respectively. While its revenues increased by $49.9 million or 2.6 percent for the year, its expenditures increased by $81.7 million or 4.5 percent. The General Fund's revenues by sources and expenditures by function as well as changes from the prior fiscal year are presented below:

Table 3—General Fund Revenue Classified by Source (in thousands)

	FY 2012		FY 2013		Increase/(Decrease)	
Revenues by source	Amount	Percent	Amount	Percent	Amount	Percent
Taxes	$ 641,051	33.3%	$ 688,233	34.8%	$ 47,182	7.4%
Licenses and permits	12,223	0.6%	13,251	0.7%	1,028	8.4%
Fines, forfeitures and penalties	55,074	2.9%	52,834	2.7%	(2,240)	(4.1%)
Interest and investment income	10,341	0.5%	5,809	0.3%	(4,532)	(43.8%)
Security lending activities	3	0.0%	-	0.0%	(3)	(100.0%)
Intergovernmental revenues	1,075,939	55.7%	1,077,021	54.4%	1,082	0.1%
Charges for services	109,598	5.7%	109,425	5.5%	(173)	(0.2%)
Other revenue	27,244	1.4%	34,802	1.8%	7,558	27.7%
Total	$ 1,931,473	100.0%	$ 1,981,375	100.0%	$ 49,902	2.6%

Table 4—General Fund Expenditures by Function (in thousands)

	FY 2012		FY 2013		Increase/(Decrease)	
Expenditures by function	Amount	Percent	Amount	Percent	Amount	Percent
General government	$ 174,276	9.7%	$ 197,631	10.4%	$ 23,355	13.4%
Public protection	603,063	33.2%	630,552	33.2%	27,489	4.6%
Public ways and facilities	3,445	0.2%	2,402	0.1%	(1,043)	(30.3%)
Health and sanitation	401,916	22.1%	416,674	21.9%	14,758	3.7%
Public assistance	607,735	33.4%	627,102	33.0%	19,367	3.2%
Capital outlay	1,027	0.1%	1,814	0.1%	787	76.6%
Debt service:						
Principal retirement	12,175	0.6%	9,332	0.4%	(2,843)	(23.4%)
Interest and fiscal charges	14,577	0.8%	14,375	0.8%	(202)	(1.4%)
Totals	$ 1,818,214	100.0%	1,899,882	100.0%	$ 81,668	4.5%

Our discussion on the County's governmental activities identified key reasons for changes in its revenues and expenditures that also help explain significant changes in the General Fund because it is the chief operating fund of the County, and its revenues and expenditures respectively cover 82.7 percent and 84.4 percent of the County's total current year revenues and expenditures of all governmental funds. For this reason, we will briefly mention the points that were elaborated in our earlier discussion on the countywide revenues and expenses.

Tax revenues increased by $47.2 million or 7.4 percent. This was mainly due to an approximately 3.3 percent increase in total property assessed values which led to an increase in secured property tax revenues of $8.6 million and unsecured revenues of $5.0 million. The increase in assessed values is in line with the increase in property tax in-lieu of vehicle license fees of $5.7 million and property taxes – retired benefit levy of $5.8 million. Additionally, property taxes increased $8.7 million due to wind down of redevelopment agencies located in the County pursuant to the Redevelopment Dissolution Act (RDA). Real property transfer taxes increased by $4.6 million as the number of real estate transactions increased reflecting confidence in the economy. Lastly, Measure A, which passed in November 2012, increased sales tax in the County by one-eighth of a cent, contributed to an increase in sales tax collections by $9.8 million for FY 2013.

Interest and investment income revenues fell by $4.5 million or 43.8 percent mainly due to lower interest rates and average daily cash balances. The commingled investment pool's average quarterly earnings rate decreased from 0.70 percent last year to 0.56 percent in the current year. The average daily cash balance for the County's General Fund fell by $35.2 million from $699.4 million to $664.2 million.

Other revenue increased by $7.6 million or 27.7 percent. This was mainly due to a receipt of $8.0 million from a dispute settlement between tobacco manufactures and the Federal government over a provision in their Master Settlement Agreement.

Pertinent reasons for changes in General Fund expenditures are not different from what was explained in earlier discussion on the countywide governmental programs and activities.

Proprietary funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of June 30, 2013, the County's net position in its enterprise funds was $1.01 billion. The net investment in capital assets was $498.1 million. The restricted net position of the enterprise funds were $494.4 million. These assets represent resources that are subject to external restrictions on how they may be used. The unrestricted net position as of June 30, 2013 was $14.9 million. The net position of the County's enterprise funds increased by $440.6 million for the year. Primary reasons for change in net position are explained in the framework of individual enterprise funds.

SCVMC is the largest enterprise fund and its revenues and expenses comprise 99.5 percent of the total revenues and total expenses for all enterprise funds. The other two enterprise funds—Airport and Sanitation District—are very small in comparison.

The net position for SCVMC increased by $440.9 million. Operating revenues increased by $86.7 million or 9.8 percent and operating expenses increased by $69.2 million or 6.9 percent. The net capital contributions and transfers were $581.7 million for the year. The primary reason for the changes in revenues and expenses were discussed in the business-type activities section. The net position of SCVMC was $985.9 million with unrestricted net position of $7.4 million. The restricted net position of SCVMC was $494.1 million and the net investment in capital assets was $484.4 million. There were no significant changes to the net position for the airport and sanitation districts during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The County's final budget appropriations for FY 2013 were $2.4 billion, which was $110.0 million or 4.8 percent higher than the original budget adopted by the Board. Occasionally, unexpected events may cause the County to commit its one-time reserves or use ongoing resources to pay for those unplanned events. Differences between the original and final budgets represent supplemental appropriations approved by the Board for various new grants received by the County or to pay for increased service level that was not expected when the original budget was approved.

General fund revenue and expenditure were less than the budgetary estimates for the year. Estimated revenues for the year exceeded actual revenues by $323.6 million or 13.5 percent. All revenue sources, except for Taxes, License and Permits, Charges for Services, and Other Financing Sources came in lower than estimates. Final budgetary appropriations exceeded actual expenditures by $368.9 million or 15.3 percent for the year. These cost savings resulted from unspent appropriations of: a) $43.5 million in salaries and benefits costs due to eliminating or not filling vacant positions; b) $195.7 million in services and supplies costs for government programs – general government, health and sanitation, public assistance, public protection, and Measure B programs; c) $2.7 million in lower debt service payments; d) $3.5 million in lower capital asset expenditures; e) $3.8 million in lower inter-fund transfers set aside for transportation projects; and f) $119.4 million remaining in contingency reserves.

The General Fund budgetary comparison schedule starts on page 110 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

As shown in Table 5 below, the County's investment in capital assets (net of accumulated depreciation) as of June 30, 2013 was $2.13 billion.

TABLE 5-Capital Assets (Net of depreciation, in thousands)

	Governmental Activities		Business-type Activities		Total		Dollar	Percent
	FY2012	FY 2013	FY2012	FY 2013	FY2012	FY 2013	Change	Change
Land	$ 250,406	$ 258,272	$ 6,310	$ 6,310	$ 256,716	$ 264,582	$ 7,866	3.1%
Construction in progress	136,184	91,479	352,668	457,900	488,852	549,379	60,527	12.4%
Infrastructure	179,999	194,420	-	-	179,999	194,420	14,421	8.0%
Buildings & improvements	485,838	517,259	479,904	461,135	965,742	978,394	12,652	1.3%
Equipment, software, and vehicles	51,039	53,295	30,424	92,454	81,463	145,749	64,286	78.9%
Leasehold improvements	-	-	466	362	466	362	(104)	(22.3%)
Total	$ 1,103,466	$ 1,114,725	$ 869,772	$ 1,018,161	$ 1,973,238	$ 2,132,886	$ 159,648	8.1%

The County's net capital assets increased by $159.6 million or 8.1 percent for the year. Net capital assets for the governmental activities increased by $11.3 million or 1.0 percent, while the business-type activities' net capital assets increased by $148.4 or 17.1 percent. Changes in capital assets by activity type were as follows:

Governmental activities

The County's capital assets for its governmental activities rose by $11.3 million after the restatement of $7.7 million to record assets related to its implementation of GASB Statement No. 60 mainly due to:

- Land increased by $7.9 million as a result from the donation of the Army Reserve Center property from the Federal government that had a valuation of $12.5 million. This increase was offset by the sale of Children's Shelter land that had a book value of $5.5 million.
- Construction in progress decreased by $44.7 million as the following projects were completed in the prior fiscal year and similar projects were not undertaken in FY 2013.
    - Solar Photovoltaic Project for $19.9 million
    - Road improvements for $13.8 million
    - Bridge rehabilitation and replacement for $7.7 million
- Infrastructure increased by $14.4 million due to the completion of some major improvements made to Roads & Airports and Parks properties.
- Buildings and improvements increased by $31.4 million. The increase was due to the completion of following projects:
    - Solar Photovoltaic Project of $19.9 million
    - Upgrade at Correctional Facilities-Elmwood of $5.7 million
    - Court seismic projects of $5.4 million
    - Lease buildings and improvements for $10.7 million for Parks & Recreation purposes.
    - $11.8 million in projects completed by various departments

  The increase to Building and improvements were offset by $13.3 million sale of the Children's Shelter building and $2.9 million sale of two Morgan Hill fire stations.
- Equipment, Software, and Vehicles increased by $2.3 million mainly due to the purchase of 745 public safety radios and the completion of Tax Collector & Apportionment Software System.

Business-type activities

Net capital assets for business-type activities increased by $148.4 million for the year. This increase was due to the current year addition in construction in progress by $107.6 million, which includes seismic compliance capital program of SCVMC buildings and facilities, $78.0 million additions in equipment and vehicles purchases, which includes the Core Health Care Information System Replacement, and $14.5 million additions in buildings and improvements, offset by current year depreciation of $49.1 million and net retirements of capital assets of $2.6 million.

Commitment of Resources for Construction Work in Progress

At June 30, 2013, the County had committed $45.6 million of its net position from the governmental activities and $900.4 million of its net position from the business-type activities for various uncompleted capital projects included in the construction in progress.

Additional information on the County's capital assets can found in Note 6 on page 61 of this report.

Long-term debt

The County's long-term outstanding debt as of June 30, 2013 was $2.3 billion as shown in Table 6 below:

TABLE 6-Outstanding Debt (in thousands)

	Governmental Activities		Business-type Activities		Total		Dollar	Percent
	FY2012	FY 2013	FY2012	FY 2013	FY2012	FY 2013	Change	Change
Taxable pension funding bonds	$ 412,963	$ 416,066	$ -	$ -	$ 412,963	$ 416,066	$ 3,103	0.8%
General obligation bonds	327,717	857,704	-	-	327,717	857,704	529,987	161.7%
Lease revenue bonds	250,177	256,616	518,143	573,108	768,320	829,724	61,404	8.0%
Capital appreciation bonds	139,931	148,309	-	-	139,931	148,309	8,378	6.0%
Certificates of participation	3,758	3,575	-	-	3,758	3,575	(183)	(4.9%)
Capital lease obligations	323	491	-	-	323	491	168	52.0%
Total	$ 1,134,869	$ 1,682,761	$ 518,143	$ 573,108	$ 1,653,012	$ 2,255,869	$ 602,857	36.5%

On November 4, 2008, the voters of Santa Clara County approved Measure A, which authorized the County to issue general obligation bonds in the amount of $840.0 million. The bond proceeds were to be used to rebuild, improve, and seismic retrofit SCVMC and to replace closed medical facilities in downtown San Jose. The 2009 Series A was issued on May 27, 2009 in the amount of $350.0 million. The 2013 Series B was issued on December 18, 2012 in the amount of $490.0 million.

On August 8, 2012, the Santa Clara County Financing Authority (Financing Authority) issued 2012 Series A lease revenue bonds for $86.9 million. The issuance of bonds is to provide funds to finance various public capital improvements and projects relating to the Santa Clara Valley Health and Hospital System Enterprise Core Healthcare Information System, to fund the Reserve Fund relating to the 2012 Series A bonds, and to pay for the costs of issuance of the 2012 Series A bonds.

The County's long-term debt increased by $602.9 million mainly due to the issuance of the bond series mentioned above plus $8.4 million in accreted interest on Tobacco Settlement Asset-Backed bonds and $7.1 million for Taxable Pension bonds.

Additional information on the County's long-term debt can be found in Note 9 on page 67 of this report.

For its outstanding debt, the County's rating from Standard & Poor's (S&P) has maintained an AA rating on County's lease revenue bonds and pension obligation bonds. S&P has also maintained the County's general obligation bonds rating of AA+. In July 2012 Moody's Investor Service lowered the credit ratings on County's lease revenue bonds from Aa2 to A1 and upgraded the County's general obligation bonds ratings from Aa1 to Aa2. In March 2013, Moody's also lowered the County's pension obligation bonds from Aa2 to A1. S&P recently revised their rating criteria and is systematically re-evaluating all counties that maintain an S&P rating. Part of the revised criteria involves assigning more weight to the strength of the local economy as compared to their old criteria. In December 2013, S&P updated the County's general obligation bonds rating to AAA, which is the highest S&P long-term rating and updated the County's lease revenue bonds and pension obligation bonds to AA+.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The County continues to recover from one of the greatest economic downturns since the Great Depression. This is indicative of the County's budget for the upcoming year, which projected a $90 million deficit in the winter of 2013, but was reduced by two-thirds due to better than expected property and sales tax projections. The following economic factors, some pointing to a long awaited recovery, were considered in the County's 2014 budget:

- The County's unemployment rate continues to improve as the rate for June 2013 was 6.8 percent. This is an improvement from June 2012 when the unemployment rate was 8.7 percent. In comparison, the statewide unemployment rate for June 2013 was 8.9 percent, a decrease of 1.8 percent from the prior year.
- The real per capita income (a measure of wealth creation) as of June 2012 (most current available data) increased from $57,338 to $61,028. The real per capita income on a national level was $43,169, an increase of $1,645 from the prior year. These increases are signs of an improving economy.
- After several years of declining valuations, the housing prices continued to grow for a second straight year. This was demonstrated by the median price for single family homes which increased to $750,000, a 17.0% percent increase from a year ago. This increase was fueled by tight inventory of homes for sale, ultra-low mortgage interest rates, and investor demand.
- Venture capital investment, a leading indicator of innovation and long-term development, decreased for the first time since 2009, down 17.0 percent from the previous year to $6.5 billion. However, Silicon Valley and San Francisco regions, taken together, accounted for 37.0 percent of the national total and 70.0 percent of the state's total. Software attracted the largest funding, followed by biomedical/health and media.
- Research and development (R&D), office, and warehouse space occupancy, which are leading indicators of economic activity, showed improved results compared to the past year. The vacancy rate for R&D space was 13.0 percent in June 2013 versus 13.7 percent a year ago. The office space vacancy rate was 12.4 percent in June 2013 compared to 13.1 percent in June 2012. The vacancy rate for warehouse space increased from 12.7 percent in 2012 to 13.5 percent in June 2013.
- The FY 2014 budget assumes a 5.1 percent increase in secured property assessed values, which corresponds to an increase of $32.9 million in property tax revenue.
- The FY 2014 Countywide budget of $4.6 billion included a 8.5 percent increase in comparison to the prior year's budget. This increase was mainly due to addressing inadequate investments in its infrastructure, especially facilities and information technology.
- The FY 2014 budget sets aside $104.3 million in contingency reserves. Operating reserve designations and the strategic reserve designations are part of the financial resources that are available to address unanticipated revenue shortfalls or unforeseen expenditures. These designations provide a primary defense against deficit spending and help maintain liquidity when budgeted draw downs become necessary.

Request for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County's Finance Agency, Controller-Treasurer Department, 70 West Hedding Street, 2nd Floor, East Wing, San Jose, CA 95110. This entire report is also available online at www.sccgov.org.

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Basic Financial Statements

COUNTY OF SANTA CLARA

Statement of Net Position

June 30, 2013
(In thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Assets:				
Cash and investments	$ 1,014,401	$ 8,573	$ 1,022,974	$ 172,668
Receivables, net of allowance for uncollectibles	169,016	98,407	267,423	35,292
Internal balances	121,292	(121,292)	-	-
Due from other governmental agencies	365,389	99,038	464,427	5,383
Receivables from related parties and component units	7,790	27,272	35,062	49,991
Inventories	3,637	18,877	22,514	-
Net pension asset	375,135	-	375,135	16,594
Other assets	29,787	8,533	38,320	17,457
Restricted cash and investments	108,820	570,724	679,544	28,932
Capital assets:				
Nondepreciable	349,751	464,210	813,961	58,847
Depreciable, net of accumulated depreciation	764,974	553,951	1,318,925	340,431
Total assets	3,309,992	1,728,293	5,038,285	725,595
Deferred outflows of resources - accumulated decrease in fair value of hedging derivatives	-	17,007	17,007	-
Liabilities:				
Accounts payable	106,219	59,616	165,835	10,768
Accrued salaries and benefits	35,057	16,259	51,316	120
Short-term debt payable	85,000	-	85,000	224
Accrued liabilities	54,913	27,006	81,919	30,226
Estimated third-party payer settlements	-	46,736	46,736	-
Due to related parties	-	-	-	8,945
Due to other governmental agencies	12,081	17,575	29,656	8,906
Unearned revenue	39,235	4,840	44,075	3,200
Payable to primary government	-	-	-	35,062
Noncurrent liabilities:				
Due within one year	81,534	45,655	127,189	3,888
Due in more than one year	2,189,632	595,427	2,785,059	305,558
Derivative instruments liabilities	-	17,007	17,007	-
Total liabilities	2,603,671	830,121	3,433,792	406,897
Deferred inflows of resources - Deferred service concession arrangement receipts	15,236	-	15,236	-
Net position (see Note 11(a)):				
Net investment in capital assets	897,189	498,066	928,872	87,131
Restricted for:				
Capital facilities	-	493,351	-	-
Debt service	367	1,039	1,406	-
Parks	86,475	-	86,475	-
Housing programs	76,198	-	76,198	-
Roads	55,550	-	55,550	-
Mental health	105,444	-	105,444	-
Other purposes	114,956	-	114,956	26,542
Unrestricted	(645,094)	(77,277)	237,363	205,025
Total net position	$ 691,085	$ 915,179	$ 1,606,264	$ 318,698

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Activities

For the Fiscal Year Ended June 30, 2013
(In thousands)

			Program Revenues		
	Expenses	**Indirect Expenses Allocation**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Function/program activities:					
Primary government:					
Governmental activities:					
General government	$ 336,873	$ (34,767)	$ 98,359	$ 189,529	$ -
Public protection	780,469	3,150	102,072	241,154	-
Public ways and facilities	29,629	1,083	2,716	31,260	9,482
Health and sanitation	439,129	11,018	43,696	211,742	-
Public assistance	633,209	4,394	5,414	545,309	-
Education	31,559	620	6,667	1,304	-
Recreation and culture	35,970	986	5,795	295	-
Interest on long-term liabilities	45,059	-	-	-	-
Total governmental activities	2,331,897	(13,516)	264,719	1,220,593	9,482
Business-type activities:					
SCVMC	1,128,245	13,514	855,249	119,451	7,234
Airport	3,579	2	3,057	-	-
Sanitation District	1,954	-	2,053	-	-
Total business-type activities	1,133,778	13,516	860,359	119,451	7,234
Total primary government	$ 3,465,675	$ -	$ 1,125,078	$ 1,340,044	$ 16,716
Component units	$ 638,611		$ 606,281	$ 19,557	$ 30,076

General revenues:

Property taxes

Sales and use taxes

Other taxes

Unrestricted motor vehicle in lieu of taxes

Grants/contributions not restricted to specific programs

Investment income

Gain on sale of capital assets

Other:

Penalties on delinquent taxes

Tobacco settlement revenues

Miscellaneous revenues

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year, as previously reported

Prior period adjustments

Net position, beginning of year, as restated

Net position, end of year

The notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	
				Function/program activities:
				Primary government:
				Governmental activities:
$ (14,218)	$ -	$ (14,218)	$ -	General government
(440,393)	-	(440,393)	-	Public protection
12,746	-	12,746	-	Public ways and facilities
(194,709)	-	(194,709)	-	Health and sanitation
(86,880)	-	(86,880)	-	Public assistance
(24,208)	-	(24,208)	-	Education
(30,866)	-	(30,866)	-	Recreation and culture
(45,059)	-	(45,059)	-	Interest on long-term liabilities
(823,587)	-	(823,587)	-	Total governmental activities
				Business-type activities:
-	(159,825)	(159,825)	-	SCVMC
-	(524)	(524)	-	Airport
-	99	99	-	Sanitation District
-	(160,250)	(160,250)	-	Total business-type activities
(823,587)	(160,250)	(983,837)	-	Total primary government
-	-	-	17,303	Component units
				General revenues:
824,370	-	824,370	-	Property taxes
14,487	8,692	23,179	-	Sales and use taxes
420	-	420	-	Other taxes
37,231	-	37,231	-	Unrestricted motor vehicle in lieu of taxes
17,179	-	17,179	-	Grants/contributions not restricted to specific programs
7,041	1,177	8,218	3,105	Investment income
4,424	-	4,424	-	Gain on sale of capital assets
				Other:
32,052	-	32,052	-	Penalties on delinquent taxes
23,864	-	23,864	-	Tobacco settlement revenues
13,623	-	13,623	322	Miscellaneous revenues
(574,489)	574,489	-	-	**Transfers**
400,202	584,358	984,560	3,427	Total general revenues and transfers
(423,385)	424,108	723	20,730	Change in net position
1,114,470	491,071	1,605,541	273,920	Net position, beginning of year, as previously reported
-	-	-	24,048	Prior period adjustments
1,114,470	491,071	1,605,541	297,968	Net position, beginning of year, as restated
$ 691,085	$ 915,179	$ 1,606,264	$ 318,698	Net position, end of year

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Balance Sheet
Governmental Funds

June 30, 2013
(In thousands)

	General Fund	Other Governmental Funds	Total
Assets:			
Cash and investments:			
Unrestricted	$ 251,567	$ 491,738	$ 743,305
Restricted with fiscal agents	27	17,115	17,142
Other restricted	44	77,095	77,139
Receivables:			
Property taxes	78,005	-	78,005
Other, net of allowance for uncollectibles	16,998	60,003	77,001
Due from other funds	54,298	2,511	56,809
Due from other governmental agencies	354,564	10,403	364,967
Inventories	1,615	818	2,433
Other assets	14,752	676	15,428
Advances to other funds	676	-	676
Total assets	$ 772,546	$ 660,359	$ 1,432,905
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	$ 91,171	$ 9,252	$ 100,423
Accrued salaries and benefits	29,390	5,071	34,461
Short-term debt payable	85,000	-	85,000
Other accrued liabilities	19,570	13,160	32,730
Due to other funds	3,381	26,177	29,558
Due to other governmental agencies	11,910	170	12,080
Advances from other funds	-	676	676
Deferred revenue	208,298	59,258	267,556
Total liabilities	448,720	113,764	562,484
Fund balances:			
Nonspendable	17,043	1,846	18,889
Restricted	44,263	441,169	485,432
Committed	19,026	71,347	90,373
Assigned	16,005	32,233	48,238
Unassigned	227,489	-	227,489
Total fund balances	323,826	546,595	870,421
Total liabilities and fund balances	$ 772,546	$ 660,359	$ 1,432,905

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Reconciliation of the Governmental Funds Balance Sheet to the
Government-wide Statement of Net Position - Governmental Activities

June 30, 2013
(In thousands)

Fund balances - total governmental funds (page 26)			$	870,421
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.				1,109,162
Bond issuance costs are expended in the governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position.				10,235
Other long-term receivables are not available to pay for current period expenditures and therefore are deferred in the funds.				228,321
Long-term receivables with matching long term liabilities, including receivables from the Housing Authority and service concession arrangements are not current financial resources and therefore are not reported in the governmental funds.				15,773
Deferred inflows of resources related to the capital assets from the service concession arrangements are not due and payable in the current period and therefore are not reported in the governmental funds.				(15,236)
Internal service funds are used by management to charge the costs of management of information services, fleet management, insurance, printing, unemployment insurance, workers' compensation, employee benefits, retiree healthcare and pension obligation to individual funds. The assets and liabilities are included in governmental activities in the statement of net position.				(63,150)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.				
Bonds payable (excludes Pension Funding Bonds recorded in the internal service funds)	$	(1,266,204)		
Accrued vacation and sick leave		(136,194)		
Capital lease obligations		(491)		
Accrued interest payable		(14,930)		
Net OPEB obligations - Santa Clara Central Fire Protection District		(38,222)		
Pollution remediation obligation		(5,900)		
Accrued litigation liability		(2,500)		(1,464,441)
Net Position - governmental activities (page 23)			$	691,085

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

For the Fiscal Year Ended June 30, 2013
(In thousands)

	General Fund	Other Governmental Funds	Total
Revenues:			
Taxes	$ 688,233	$ 167,026	$ 855,259
Licenses and permits	13,251	26,653	39,904
Fines, forfeitures, and penalties	52,834	9,795	62,629
Interest and investment income	5,809	5,603	11,412
Intergovernmental revenues	1,077,021	154,178	1,231,199
Charges for services	109,425	38,504	147,929
Other revenue	34,802	12,367	47,169
Total revenues	1,981,375	414,126	2,395,501
Expenditures:			
Current:			
General government	197,631	159	197,790
Public protection	630,552	136,184	766,736
Public ways and facilities	2,402	57,278	59,680
Health and sanitation	416,674	27,814	444,488
Public assistance	627,102	9,138	636,240
Education	-	30,814	30,814
Recreation and culture	-	34,634	34,634
Capital outlay	1,814	26,204	28,018
Debt service:			
Principal retirement	9,332	6,985	16,317
Interest and fiscal charges	14,375	17,254	31,629
Cost of issuance	-	4,730	4,730
Total expenditures	1,899,882	351,194	2,251,076
Excess of revenues over expenditures	81,493	62,932	144,425
Other financing sources (uses):			
Proceeds from sale of capital assets	17,347	6,953	24,300
Bond premium	-	44,622	44,622
Bonds issuance	-	509,316	509,316
Transfers in	77,708	39,950	117,658
Transfers out	(127,512)	(565,468)	(692,980)
Total other financing sources (uses)	(32,457)	35,373	2,916
Net change in fund balances	49,036	98,305	147,341
Fund balances, beginning of year	274,790	448,290	723,080
Fund balances, end of year	$ 323,826	$ 546,595	$ 870,421

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Government-wide
Statement of Activities - Governmental Activities

For the Fiscal Year Ended June 30, 2013
(In thousands)

Net change in fund balances - total governmental funds (page 28)		$ 147,341
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	$ 68,861	
Net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, donations)	(15,876)	
Less current year depreciation	(41,629)	11,356
Bond issuance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities.		
Bond issuance costs	4,730	
Amortization of bond issuance costs	(353)	4,377
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		57,417
Revenues recognized in the governmental funds that were earned and recognized in previous years and are reported as beginning net position in the statement of activities.		(11,001)
Issuance of bonds are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. However, bonds issuance changes long-term liabilities in the statement of net position and do not affect the statement of activities.		(553,938)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		16,535
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Amortization of bond premium and deferred loss on refunding	1,378	
Change in accrued interest payable	(6,430)	
Change in accreted interest - Tobacco Settlement Asset-Backed Bonds	(8,378)	
Change in net OPEB obligations - Santa Clara Central Fire Protection District	(3,240)	
Change in pollution remediation obligations	(5,900)	
Change in long-term compensated absences	(1,603)	(24,173)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is reported with governmental activities.		(71,299)
Change in net position of governmental activities (page 25)		$ (423,385)

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Fund Net Position

Proprietary Funds

June 30, 2013

(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Assets and Deferred Outflows of Resources:				
Assets:				
Current assets:				
Cash and investments:				
Unrestricted	$ -	$ 8,573	$ 8,573	$ 271,096
Restricted with fiscal agent	-	744	744	14,007
Other restricted	569,980	-	569,980	532
Receivables:				
Patient accounts receivable, net of estimated uncollectables	96,505	-	96,505	-
Other	1,789	113	1,902	6,027
Due from other funds	5,944	-	5,944	2,453
Due from other governmental agencies	99,038	-	99,038	422
Receivables from component units	27,272	-	27,272	-
Inventories	18,877	-	18,877	1,204
Prepaid rent/insurance	4,665	-	4,665	1,853
Total current assets	824,070	9,430	833,500	297,594
Noncurrent assets:				
Net pension asset	-	-	-	375,135
Other assets	3,705	163	3,868	2,271
Capital assets:				
Nondepreciable	459,839	4,371	464,210	1,295
Depreciable, net of accumulated depreciation	540,307	13,644	553,951	4,268
Total noncurrent assets	1,003,851	18,178	1,022,029	382,969
Total assets	1,827,921	27,608	1,855,529	680,563
Deferred outflows of resources - accumulated decrease in fair value of hedging derivatives	17,007	-	17,007	-
Total assets and deferred outflows of resources	1,844,928	27,608	1,872,536	680,563
Liabilities:				
Current liabilities:				
Accounts payable	58,647	969	59,616	5,796
Accrued salaries and benefits	16,236	23	16,259	596
Accrued liabilities	26,847	159	27,006	7,253
Due to other funds	35,009	-	35,009	639
Due to third-party payers	46,736	-	46,736	-
Due to other governmental agencies	17,575	-	17,575	1
Unearned revenue	4,760	80	4,840	-
Current portion of insurance claims	-	-	-	33,995
Current portion of accrued vacation and sick leave	10,920	11	10,931	210
Current portion of bonds payable	34,540	184	34,724	5,040
Total current liabilities	251,270	1,426	252,696	53,530
Noncurrent liabilities:				
Noncurrent portion of insurance claims	-	-	-	83,937
Noncurrent portion of accrued vacation and sick leave	56,933	110	57,043	3,960
Noncurrent portion of bonds payable	533,798	4,586	538,384	411,026
Net OPEB obligation	-	-	-	283,487
Derivative instruments liabilities	17,007	-	17,007	-
Total noncurrent liabilities	607,738	4,696	612,434	782,410
Total liabilities	859,008	6,122	865,130	835,940
Net position:				
Net investment in capital assets	484,381	13,685	498,066	5,563
Restricted:				
Capital facilities	493,351	-	493,351	-
Debt service	735	304	1,039	-
Unrestricted	7,453	7,497	14,950	(160,940)
Total net position	$ 985,920	$ 21,486	1,007,406	$ (155,377)
Adjustment to reflect the consolidation of internal service fund activities to enterprise funds.			(92,227)	
Net position of business-type activities			$ 915,179	

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds

For the Fiscal Year Ended June 30, 2013
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Operating revenues:				
Charges for services	$ 855,249	$ 5,110	$ 860,359	$ 237,195
Other program revenues	119,451	-	119,451	-
Net operating revenues	974,700	5,110	979,810	237,195
Operating expenses:				
Salaries and benefits	710,021	1,258	711,279	206,028
Services and supplies	102,434	997	103,431	22,562
General and administrative	-	-	-	5,704
Professional services	182,437	482	182,919	1,190
Depreciation	48,181	948	49,129	2,365
Amortization of net pension asset	-	-	-	(3,969)
Leases and rentals	7,117	-	7,117	32
Utilities	10,120	-	10,120	-
Insurance claims and premiums	8,297	38	8,335	70,534
Other	5,644	1,393	7,037	-
Total operating expenses	1,074,251	5,116	1,079,367	304,446
Operating loss	(99,551)	(6)	(99,557)	(67,251)
Nonoperating revenues (expenses):				
Taxes	8,692	-	8,692	-
Investment income	1,132	45	1,177	3,078
Interest expense	(20,086)	(235)	(20,321)	(24,762)
Loss on disposal of capital assets	(2,461)	(155)	(2,616)	(11)
Other, net	(28,496)	27	(28,469)	293
Total nonoperating revenues (expenses), net	(41,219)	(318)	(41,537)	(21,402)
Loss before capital contributions and transfers	(140,770)	(324)	(141,094)	(88,653)
Capital contributions	7,234	-	7,234	-
Transfers in	584,810	25	584,835	2,247
Transfers out	(10,346)	-	(10,346)	(1,414)
Change in net position	440,928	(299)	440,629	(87,820)
Net position, beginning of year	544,992	21,785	566,777	(67,557)
Net position, end of year	$ 985,920	$ 21,486	$ 1,007,406	$ (155,377)
Change in net position of enterprise funds			$ 440,629	
Adjustment to reflect the consolidation of internal service funds to enterprise funds.			(16,521)	
Change in net position of business-type activities			$ 424,108	

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2013
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Cash flows from operating activities:				
Cash receipts from customers and users	$ 954,126	$ 5,221	$ 959,347	$ 234,333
Cash payment to suppliers for goods and services	(336,803)	(2,766)	(339,569)	(27,938)
Cash payment to employees for services	(708,096)	(1,249)	(709,345)	(30,820)
Cash payment for retirement benefits	-	-	-	(99,735)
Cash payment for judgments and claims	-	-	-	(69,327)
Other payments	(28,496)	-	(28,496)	-
Other receipts	-	27	27	293
Net cash provided by (used in) operating activities	(119,269)	1,233	(118,036)	6,806
Cash flows from noncapital financing activities:				
Cash receipts from state grants - taxes realignment	8,541	-	8,541	-
Cash receipts from borrowings to other funds	48,540	-	48,540	11,549
Cash payments to other funds	-	-	-	(2,453)
Principal paid on pension obligation bonds	-	-	-	(4,040)
Interest paid on pension obligation bonds	-	-	-	(17,616)
Transfers in	94,457	25	94,482	2,247
Transfers out	(10,346)	-	(10,346)	(1,414)
Net cash provided by (used in) noncapital financing activities	141,192	25	141,217	(11,727)
Cash flows from capital and related financing activities:				
Proceeds from issuance of capital debt	77,503	-	77,503	-
Bond issuance costs paid	(717)	-	(717)	-
Transfers in	490,353	-	490,353	-
Principal paid on bonds	(22,588)	(180)	(22,768)	-
Interest paid	(20,669)	(233)	(20,902)	(7)
Acquisition of capital assets	(184,369)	(356)	(184,725)	(1,893)
Capital contributions received	10,350	-	10,350	-
Net cash provided by (used in) capital and related financing activities	349,863	(769)	349,094	(1,900)
Cash flows from investing activities:				
Proceeds from sale of investments	-	-	-	17,540
Investment income received	915	45	960	6,156
Investment expenses paid	-	-	-	(40)
Net cash provided by investing activities	915	45	960	23,656
Net change in cash and cash equivalents	372,701	534	373,235	16,835
Cash and cash equivalents, beginning of year	197,279	8,783	206,062	135,028
Cash and cash equivalents, end of year	$ 569,980	$ 9,317	$ 579,297	$ 151,863
Cash and cash equivalents:				
Cash and investments:				
Unrestricted	$ -	$ 8,573	$ 8,573	$ 271,096
Restricted with fiscal agents	-	744	744	14,007
Other restricted	569,980	-	569,980	532
Less deposits and investments not meeting the definition of cash and cash equivalents	-	-	-	(133,772)
Total cash and cash equivalents	$ 569,980	$ 9,317	$ 579,297	$ 151,863

(Continued)

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2013
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	**Other**	**Total**	**Internal Service Funds**
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	$ (99,551)	$ (6)	$ (99,557)	$ (67,251)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	48,181	948	49,129	2,365
Amortization of net pension asset	-	-	-	(3,969)
Provision for bad debts	61,164	-	61,164	-
Miscellaneous nonoperating revenues (expenses), net	(28,496)	27	(28,469)	293
Decrease (increase) in assets:				
Receivables	(80,335)	(10)	(80,345)	(1,020)
Due from other governmental agencies	(20,646)	120	(20,526)	145
Receivables from component units	(27,272)	-	(27,272)	-
Inventories	(2,566)	-	(2,566)	(54)
Prepaid rent/insurance	(132)	-	(132)	1,398
Other assets	(1)	4	3	-
Increase (decrease) in liabilities:				
Accounts payable	(11)	154	143	287
Accrued salaries and benefits	-	4	4	-
Accrued liabilities	7,678	(14)	7,664	14
Due to third-party payers	21,721	-	21,721	-
Accrued vacation and sick leave	-	5	5	46
Insurance claims	-	-	-	1,211
Due to other governmental agencies	74	-	74	1
Unearned revenue	923	1	924	(1,986)
Net OPEB obligation	-	-	-	75,326
Net cash provided by (used in) operating activities	$ (119,269)	$ 1,233	$ (118,036)	$ 6,806
Supplemental disclosure of noncash investing, capital and related financing activities:				
Noncash capital and related financing activities:				
Capitalized interest	$ 1,923	$ -	$ 1,923	$ -
Acquisition of capital assets through accounts payable	23,321	-	23,321	-
Amortization of discounts, premiums and deferred loss on refunding	229	-	229	-
Amortization of deferred charges	247	-	247	-
Decrease in rebatable arbitrage	75	-	75	-
Noncash investing activities:				
Net change in fair value of investments not considered cash and cash equivalents	-	-	-	(3,038)
Noncash noncapital financing activities				
Accretion of interest on capital appreciation bonds	-	-	-	7,143

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Fiduciary Net Position
Fiduciary Funds

June 30, 2013
(In thousands)

	Investment Trust Funds	Private Purpose Trust Fund	Agency Funds
Assets:			
Cash and investments:			
Unrestricted	$ 2,840,432	$ 41,624	$ 203,921
Other restricted	5	394	476
Receivables:			
Property taxes	-	-	12,867
Interest	14,213	262	7,332
Other	-	85	171
Due from other governmental agencies	-	-	678
Other assets	-	59,995	2,467
Total assets	2,854,650	102,360	227,912
Liabilities:			
Accounts payable	-	40,812	-
Other accrued liabilities	-	414	-
Due to other governmental agencies	-	729	2
Deposits from others	-	60,098	-
Fiduciary liabilities	-	-	227,910
Total liabilities	-	102,053	227,912
Net position:			
Net position held in trust	$ 2,854,650	$ 307	$ -

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Changes in Fiduciary Net Position
Fiduciary Funds

For the Fiscal Year Ended June 30, 2013
(In thousands)

	Investment Trust Funds	Private-Purpose Trust Fund
Additions:		
Contributions to pooled investments	$ 10,741,312	$ -
Interest and investment income	6,314	(127)
Total additions	10,747,626	(127)
Deductions:		
Distributions and administrative expenses	10,634,871	14
Change in net position	112,755	(141)
Net position held in trust, beginning of year as previously reported	2,763,864	448
Prior period adjustments	(21,969)	-
Net position held in trust, beginning of year, as restated	2,741,895	448
Net position held in trust, end of year	$ 2,854,650	$ 307

The notes to the basic financial statements are an integral part of this statement.

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(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

The County of Santa Clara (County), California (State), was established on June 1, 1850. The County's powers are exercised through a Board of Supervisors (the Board), which is the governing body of the County. The Board is responsible for the legislative and executive control of the County. The County provides various services on a County-wide basis and certain services only to unincorporated areas. Services provided include law and justice, education, detention, social services, health, hospital, fire protection, sanitation, road construction and maintenance, park and recreation facilities, elections and records, communications, planning, zoning, treasury, and tax collection.

The governmental reporting entity consists of the County (Primary Government) and its component units. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County. Financial accountability is also defined as the fiscal dependency of the component units on the County and the potential for the component unit to provide a financial benefit to or impose a financial burden on the County regardless of the organization of the governing board of the component unit.

The basic financial statements include both blended and discretely presented component units. The blended component units are, although legally separate entities, in substance part of the County's operations and so data from these units are combined with data of the primary government. The discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government.

For financial reporting purposes, the County's basic financial statements include all financial activities that are controlled by or are dependent upon actions taken by the County's Board. The financial statements of the individual component units may be obtained from the County's Controller-Treasurer Department located at 70 West Hedding Street, 2nd Floor, East Wing, San Jose, California 95110.

Blended Component Units

The County and the component units listed below have a financial and operational relationship which requires that they be blended into the County's financial statements. The Board serves as the governing board of the County's blended component units. In addition, the Santa Clara County Financing Authority, the Santa Clara County – El Camino Hospital District Hospital Facilities Authority, the Silicon Valley Tobacco Securitization Authority, and the Santa Clara County Tobacco Securitization Corporation provide services entirely or almost entirely to the County.

(1) Summary of Significant Accounting Policies (Continued)

The following component units are blended in the County's basic financial statements:

Component unit	**Blended in the basic financial statements under the category of:**
Santa Clara County Central Fire Protection District South Santa Clara County Fire District Los Altos Hills County Fire District	Nonmajor governmental funds - all fire districts are reported together in a special revenue fund.
Santa Clara County Library	Nonmajor governmental funds
Santa Clara County Vector Control District	Nonmajor governmental funds
County Sanitation District 2 - 3 of Santa Clara County	Sanitation District Enterprise Fund
Santa Clara County Financing Authority (SCCFA)	SCCFA is included in the financial statements for the Santa Clara Valley Medical Center (SCVMC) and debt service funds of the governmental funds
Santa Clara County - El Camino Hospital District Hospital Facilities Authority	Nonmajor governmental funds with the noncurrent liabilities included in the government-wide statement of net position and the SCVMC
Silicon Valley Tobacco Securitization Authority	Nonmajor governmental funds with the noncurrent liabilities included in the government-wide statement of net position
Santa Clara County Tobacco Securitization Corporation	Nonmajor governmental funds with the noncurrent liabilities included in the government-wide statement of net position

Discretely Presented Component Units

The FIRST 5 Santa Clara County (FIRST 5) was created on March 30, 1999, under the provisions of the California Children and Families Act of 1998 (the Act). The Act became law in 1998 when California voters approved Proposition 10, authorizing the State to levy a tax on tobacco products to pay for programs to promote the healthy development of young children. FIRST 5's board consists of nine members, two of whom are officers of the County, while the remaining seven are appointed by the Board. FIRST 5 does not provide a financial benefit nor impose a financial burden on the County. However, due to the nature and significance of FIRST 5's relationship with the County, FIRST 5 is a discretely presented component unit of the County. Complete financial statements for FIRST 5 can be obtained directly from its administrative office at 4000 Moorpark Avenue, Suite 200, San Jose, California 95117.

The Housing Authority of the County of Santa Clara (Housing Authority) was established in 1967 by the Board. The purpose of the Housing Authority is to provide affordable housing to low-income families, elderly and handicapped in Santa Clara County. It accomplishes its objectives by providing management, administrative and educational services to tenants and landlords to facilitate the operation of the various federal and state pretax assistance programs. Most of the housing programs administered by the Housing Authority are funded by contributions from the U.S. Department of Housing and Urban Development (HUD).

The Board appoints a voting majority of the Housing Authority's Board of Commissioners and can remove appointed members at will. The Housing Authority is presented as a discretely presented component unit of the County. The Housing Authority's governing body is not substantially the same as that of the County, and the Housing Authority does not provide services entirely or almost entirely to the County. The financial data included for the Housing Authority represents the aggregated data of its business-type activities and its component units. The Housing Authority has formed twelve non-profit organizations and one for-profit corporation to further facilitate its goals.

(1) Summary of Significant Accounting Policies (Continued)

Complete financial statements for the Housing Authority can be obtained directly from its administrative office at 505 W. Julian Street, San Jose, CA 95110.

The Santa Clara Heath Authority, doing business as Santa Clara Family Health Plan and the Santa Clara Community Health Authority (collectively, the Health Authority), was established by the County Board pursuant to Section 14087.38 of the Welfare and Institutional Code. The Health Authority was created for the purpose of developing the Local Initiative Plan for the expansion of Medi-Cal Managed Care. The majority of the Health Authority's revenues are generated from a contract with the State of California Medi-Cal Program and a contract with the Centers for Medicare and Medicaid Services (CMS) for a Medicare program.

The Health Authority is a legally separate entity governed by a thirteen-member governing board appointed by the County Board. In April 2012, the County Board adopted an ordinance, which granted the County Board the ability to remove the Health Authority's governing board at will. As such, the Health Authority is included in the County's basic financial statements as a discretely presented component unit. The Health Authority is a nonprofit entity that is separate and apart from the County, and is not considered to be an agency, division, or department of the County. Furthermore, the Health Authority is not governed by, nor is it subject to, the Charter of the County and is not subject to the County's policies or operational rules. The Health Authority's debts are not expected to be repaid with County resources. Therefore, the Health Authority's data are presented separately from the data of the primary government.

The Health Authority acquired a license under the Knox-Keene Health Care Services Plan Act, and is regulated by the State's Department of Health Care Services (DHCS), California's Department of Managed Health Care (DMHC), and the Centers for Medicare and Medicaid Services (CMS). Complete financial statements for the Health Authority can be obtained directly from its administrative offices at 210 E. Hacienda Ave, Campbell, CA 95008.

(b) Basis of Presentation

Government-wide Financial Statements

The statement of net position and statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County and between the County and its discretely presented component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include: 1) charges paid by the recipients of goods or services offered by the programs, including fines and

(1) Summary of Significant Accounting Policies (Continued)

penalties, and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes imposed by the County, are presented instead as general revenues.

When both restricted and unrestricted net position is available, unrestricted resources are used only after restricted resources are depleted.

Fund Financial Statements

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the County's enterprise and internal service funds are charges for customer services including: medical center charges for services, sanitation and airport fees, insurance charges, employee benefits, employee retirement, healthcare, information services, vehicle and maintenance services and printing support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The County reports the following major governmental and enterprise funds:

- *General Fund* is the general operating fund of the County. It accounts for all financial resources except those required to be accounted for in another fund.
- *SCVMC Enterprise Fund* accounts for hospital and clinic services provided to County residents. Revenues consist primarily of patient service fees. An annual operating subsidy is provided by the General Fund to supplement SCVMC programs.

The County reports the following additional fund types:

- *Internal Service Funds* provide for information technology, vehicle and maintenance, and printing services provided to County departments; life and dental insurance benefits, workers' compensation, unemployment, retirement healthcare, and pension financing costs for County employees; and other liability claims against the County.
- *Investment Trust Funds* account for commingled pool assets held in trust for schools, other special districts and other agencies which use the County Treasury as their depository, as well as account for separate investments acquired for the Mountain View – Los Altos School District, Palo Alto Unified School District, San Jose-Evergreen Community College District, and West Valley Mission Community College District.

(1) Summary of Significant Accounting Policies (Continued)

- *Private Purpose Trust Funds* are used to account for resources for conservatees managed by the public guardians and administrators. These resources are restricted to a specified purpose that benefits individuals.
- *Agency Funds* are custodial in nature and do not involve measurement of results of operations and account for assets held by the County as an agent for various local governments and individuals. Included are funds for child support payments; bail money posted with Superior Court; employees' long-term disability and supplemental life insurance premiums; and apportioned taxes for other local governmental agencies.

(c) Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements (excluding agency funds). Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when "susceptible to accrual" (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenues are recognized in the current year if they are collected within 60 days of year-end. For all other revenues, the County considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. During the year ended June 30, 2013, the County reduced its availability period from 360 days to 120 days to better align its payment requirements of its liabilities. Revenues not considered available are recorded as deferred revenue. The County's other primary revenue sources: investment income, intergovernmental revenues and charges for services have been treated as "susceptible to accrual" under the modified accrual basis. Licenses and permits, fines, forfeitures and penalties, and other revenue are not considered "susceptible to accrual" under the modified accrual basis and are recorded as revenues when received. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

(d) Federal, State, and Local Grant Funds

Proprietary funds' federal, state, and local grants are accounted for in accordance with the purpose for which the grants are intended. Approved grants for the acquisition of land, buildings, and equipment are reported as capital contributions and grants for operating assistance are recorded as non-operating revenues in the year in which the grants are applicable and the related grant conditions are met.

(1) Summary of Significant Accounting Policies (Continued)

(e) County Commingled Investment Pool

The County Treasurer manages a common cash and investment pool for the County, school and community college districts, special districts, and other local public agencies. Investments made by the Treasurer are regulated by the California Government Code and by a County investment policy approved annually by the County Treasury Oversight Committee and the Board. Adherence to the statutes and policies is monitored by the Board, the Treasury Oversight Committee, and the Internal Audit Division through monthly audits and reports.

The pool consists of cash and investments that are either unrestricted or legally restricted to certain trust, bond issue, and specific expenditure purposes. The pool is not registered with the SEC as an investment company. State law requires that the County and its public school districts invest with the County Treasury. These involuntary external members' shares comprise 59% of the pool.

Investments of the pool are stated at fair value. The County Treasurer determines the fair value of the pool on a monthly basis, based on quoted market prices. The County has not provided nor obtained any legally binding guarantees during the year ended June 30, 2013 to support the value of shares in the pool.

The value of the participants' pool shares that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of the participants' positions in the pool.

Separate Investments

The County Treasurer oversees separate investments for most of the County's reserve, payment, and capital resources arising from the issuance of various construction and technology bonds. In addition, self-insurance trusts and benefit plans for the County, Park Charter Fund, and certain school districts own additional separate investments managed by the Treasurer. All of these investments are classified as either unrestricted or restricted for other purposes on the accompanying balance sheets and statement of net position.

The Santa Clara County Financing Authority and the Santa Clara County - El Camino Hospital District Hospital Facilities Authority maintain restricted cash and investments in separate bank accounts.

Separate investments held by the County Treasury are also stated at fair value. The County Treasurer determines the fair value of these investments on a monthly basis, based on quoted market prices. Outside trustees provide monthly statements to report the fair value and pricing of the assets held by them, which are also based on quoted market prices.

Investment Income

Realized earnings are allocated quarterly to the commingled investment pool participants based on the participants' average daily cash balance relative to the entire pool. A negative average cash balance results in negative earnings that are netted against interest income. Changes in fair value are included in investment income for financial statement reporting purposes.

(1) Summary of Significant Accounting Policies (Continued)

The County follows legal or contractual provisions regarding the assignment of interest revenue to certain other funds. Interest on bond monies held in the non-major governmental funds have such arrangements. The assignment of other interest is based on management's discretion. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, interest revenue is reported in the fund in which it is earned. Subsequent assignments are reported as transfers.

(f) Statement of Cash Flows

For purposes of the accompanying statement of cash flows, the County considers all highly liquid investments (including restricted assets) with a maturity of three months or less from the original purchase to be cash equivalents. The majority of the proprietary funds' deposits in the County Treasurer's commingled pool is in substance, demand deposits and is, therefore, considered cash equivalents for purposes of the statement of cash flows.

(g) Inventories

Inventories are stated at cost (using the first-in, first-out method), which approximates market, and consist of expendable supplies that are reduced as consumed. Inventories reported in governmental funds are offset by a corresponding nonspendable fund balance, which indicates that they are not in spendable form even though they are a component of current assets.

(h) Loans Receivable

For the purpose of the fund financial statements, governmental expenditures relating to long-term loan receivables arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred revenue account. The balance of the long-term receivable includes loans that may be forgiven if certain terms and conditions of the loans are met.

(i) Capital Assets

The County defines capital assets as assets with an initial, individual cost of more than $150 for infrastructure and buildings and improvements, $100 for internally generated software, and $5 for equipment and vehicles with an estimated useful life in excess of one year. Donated capital assets are stated at their estimated fair market value on the date donated. Capital assets used in operations are depreciated or amortized (assets under capital leases and other intangible assets) using the straight-line method over the capital lease period or their estimated useful lives in the government-wide statements and proprietary fund statements. Certain assets, for which actual historical costs are not available, have been reported using methods that approximate their historical costs. Depreciation of exhaustible capital assets is charged as an expense against the County's operations, over their estimated useful lives in the government-wide statements and proprietary fund statements.

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

Depreciation is computed using the straight-line method over the following estimated useful lives:

Infrastructure	20 to 50 years
Buildings and improvements	5 to 50 years
Equipment and vehicles	3 to 30 years

Interest is capitalized on proprietary funds' construction in progress. Interest capitalized is the total interest cost from the date of the borrowing net of any interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use.

(j) Property Tax Levy, Collection, and Maximum Rate

The State's Constitution, Article XIII A provides that the combined maximum ad valorem property tax rate on any given property may not exceed 1% of its assessed value except for rates levied to pay principal and interest on general obligation debt. Such debt shall have voter approval unless incurred prior to June 6, 1978. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased no more than 2% per year unless the property is sold or transferred. Whenever there are changes in ownership, completed construction, or demolition, properties are subject to supplemental assessment based on the change in assessed valuation. Supplemental taxes are levied on the value change and prorated for the balance of the tax year. The State Legislature, through Assembly Bill 8 of 1979 and subsequent legislation, defined the methodology for distributing the 1% tax levy and collections among the County, cities, schools, and other local jurisdictions such as districts providing water, fire and library services.

The County assesses property values and levies, bills and collects the related taxes as follows:

	Secured	Unsecured
Lien dates	January 1	January 1
Levy dates	October 1	July 1
Due Dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent after	December 10 (for November) April 10 (for February)	August 31

Annually, the Board sets the rates to be applied to the tax roll for the benefit of local taxing jurisdictions as provided by State code. These taxes are secured by liens on the property being taxed. Taxes secured by land and improvements are levied on the Secured Tax Roll, while those taxes secured by personal property are levied on the Unsecured Tax Roll.

In 1994, the Board adopted the Alternative Method of Tax Apportionment (the Teeter Plan). Under this method, the County distributes 100% of the secured tax levy to participating jurisdictions, regardless of collections. To cover losses on delinquent tax sales, counties using the Teeter Plan must maintain a Tax Losses Reserve Fund. The Tax Losses Reserve Fund is included in the County's "Apportioned Tax Resources" Agency Fund. When the balance in this fund exceeds the minimum balance required by the State code, the excess may be transferred to the General Fund.

(1) Summary of Significant Accounting Policies (Continued)

(k) Interfund Transactions

Interfund transactions are reflected as loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables, as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). Any residual balances outstanding between the *governmental activities* and the *business-type activities* are reported in the government-wide statements as "internal balances." Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

(l) Bond Issuance Costs, Original Issue Discounts and Premiums, and Deferred Losses on Refunding

In governmental fund types, bond premiums, discounts and issuance costs are recognized in the period bond proceeds are received. Bond premiums, discounts and issuance costs for the government-wide statement of net position and proprietary fund types are deferred and amortized over the term of the bonds using a method that approximates the interest method. Bond premiums and discounts in the government-wide statements and in proprietary fund types are presented as an increase or reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

Gains or losses occurring from advance refunding, completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities, they are deferred and amortized into expense if they occurred subsequent to June 30, 2001.

(m) Leases

The County leases various assets under both operating and capital lease agreements. For governmental fund types, assets under capital leases and the related long-term lease obligations are reported as capital assets and long-term liabilities in the governmental-wide statement of net position, respectively. For proprietary fund types, the assets and related capital lease obligations are recorded in the appropriate proprietary fund.

(n) Accrued Vacation and Sick Leave

Accumulated unpaid vacation and sick leave are recorded as a liability when future payments for such compensated absences have been earned by employees based on pay and salary rates in effect at year-end. This liability is recorded in the government-wide statement of net position and in the various proprietary funds to reflect the County's obligation to fund such costs from future operations. The County includes its share of Social Security and Medicare payments made on behalf of the employees in its accrual for compensated absences. Unused vacation and sick leave are paid out upon separation from the County based on the terms stated in the Memorandum of Understanding between the employees' bargaining units and the County. The County does not accrue for compensated absences in its governmental fund statements and recognizes liabilities for compensated absences only if they are due and payable in an event such as termination.

(1) Summary of Significant Accounting Policies (Continued)

(o) Effects of New Pronouncements

During the year ended June 30, 2013, the County implemented the following GASB Statements:

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses the accounting and reporting for service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements in which a government (“transferor”) engages a company or another government (“operator”) to operate a major capital asset in return for the right to collect fees from users of the capital asset. As of July 1, 2012, the County adopted this statement and reported its service concession arrangements as discussed in Note 14(a).

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and 34.* This statement is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments,* to better meet the needs of users and address reporting entity issues that have come to light since these statements were issued in 1991 and 1999, respectively. The County determined that due to the April 2012 change in its ordinance, the Health Authority should have been reported as a discrete component unit of the County and its investments held in the investment trust fund should have been reported with the discrete component unit. As such, as of July 1, 2012, the County restated its beginning net position by decreasing the investment trust funds’ net position by $21,969 and increasing the discretely presented component units’ net position by $24,209. In addition, the Housing Authority decreased its beginning net position in the amount of $161 after its evaluation of its component units under GASB Statement No. 61.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. As of July 1, 2012, the County adopted this statement which did not have a significant impact to its financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. As of July 1, 2012, the County adopted this statement which did not have a significant impact to its financial statements.

(1) Summary of Significant Accounting Policies (Continued)

The County is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement is intended to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for the County's fiscal year ending June 30, 2014.

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 - An Amendment of GASB Statements No. 10 and No. 62*. This statement resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement amends Statement No. 10, *Codification of Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits fund-based reporting of a state or local government's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate. The requirements of this statement are effective for the County's fiscal year ending June 30, 2014.

In June 2012, GASB issued two new standards, GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. These statements improve the guidance for accounting and reporting on the pensions that governments provide to their employees.

Key changes include the following:

- Separating the determination of accounting and financial reporting from how pensions are funded.
- Employers with defined benefit pension plans will recognize a net pension liability, as defined by the standard, in their government-wide, proprietary and fiduciary fund financial statements.
- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the yield or index rate on tax-exempt 20-year general obligation municipal bonds with an average rating of AA/Aa or higher to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.

(1) Summary of Significant Accounting Policies (Continued)

- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Requiring more extensive note disclosures and required supplementary information.

The statements relate to accounting and financial reporting and do not apply to a government's approach for funding of its pension plan. At present, there generally is a close connection between the ways many governments fund pensions and how they account for and report information about them in financial statements. The statements would separate how the accounting and financial reporting is determined from how pensions are funded. The requirements of Statement No. 67 and No. 68 are effective for the County's fiscal years ending June 30, 2014 and June 30, 2015, respectively.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This statement is intended to improve accounting and financial reporting for U.S. state and local governments' combinations and disposals of government operations. This statement provides guidance for determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations; using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations; measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and reporting the disposal of government operations that have been transferred or sold. The requirements of this statement are effective for the County's fiscal year ending June 30, 2015.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is intended to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities and requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. The requirements of this statement are effective for the County's fiscal year ending June 30, 2014.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This statement is intended to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing

(1) Summary of Significant Accounting Policies (Continued)

entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this statement are effective for the County's fiscal year ending June 30, 2015.

(p) Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

(2) Stewardship, Compliance and Accountability

Deficit Net Position

At June 30, 2013, the Workers' Compensation, Retiree Healthcare, and Pension Obligation Internal Service Funds have deficit net position of $31,179, $129,202, and $46,114, respectively. For the Workers' Compensation Internal Service Fund, the deficit was reduced by $4,241 in fiscal year 2013. The County expects to eliminate the fund deficit through rate increases in future years. The County has developed a plan to reduce its deficit in the Retiree Health Care Internal Service Fund by increasing rates. The deficit for the Pension Obligation Internal Service Fund is expected to be eliminated through rate increases for repayment of the 2007 Taxable Pension Funding Bonds.

(3) Cash and Investments

(a) Description

The County Treasurer maintains common cash and investment pools in which cash may be invested by individual County funds and certain independent local governmental agencies. In addition, investments are held separately by the Treasurer for other County funds, including: County Parks, the Retiree Healthcare Internal Service Fund and certain school districts. Each fund type's share of the common pool is combined with cash and investments held separately and shown on the accompanying balance sheet and statement of net position as "cash and investments" and "restricted cash and investments."

Cash and investments – restricted with fiscal agents represent monies held by trustees that are legally restricted for the retirement of long-term debt. Cash and investments – other restricted includes monies held in the County Treasury restricted by debt covenants for construction projects and professional services and restricted for specific purposes consisting primarily of reserves for employee benefits and certain other debt service funds.

(b) Investment Policies

The objectives of the County's investment policy, in order of priority, are safety of principal to ensure preservation of capital in the overall portfolio, maintenance of liquidity sufficient to meet anticipated operating requirements, and to attain a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and cash flow characteristics. The objectives of the policy also insure mitigation of interest rate risk, credit risk, and concentration of credit risk.

(Dollars in thousands)

(3) Cash and Investments (Continued)

The table below identifies the investment types that are authorized for the County by the California Government Code (or the County's investment policy, where more restrictive). This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements, rather than the general provisions of the California Government Code or the County's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer	Credit Ratings Minimum (2 Ratings)
U.S. Treasury Obligations	5 years	None	None	N/A
U.S. Agency Securities	5 years	None	None	N/A
State Local Agency Investment Fund (LAIF)	N/A	None	None	N/A
Repurchase Agreements	92 days	None	None	N/A
Reverse Repurchase Agreements	92 days	20%	$90 million *	None
Securities Lending	92 days	20% *	None	N/A
Collateralized Bank Deposits	5 years	None	None	None
Negotiable Certificates of Deposit	5 years	30%	7.5% of the 30% *	A-1/P-1/F1 *
Bankers' Acceptances	180 days	40%	15% of the 40% *	A-1/P-1/F1 *
Commercial Paper	270 days	40%	10%	A-1/P-1/F1 *
Medium-Term Corporate Notes	5 years	30%	10% of the 30% *	Aa3/AA-/AA-*
Municipal Obligations	5 years	10% *	None	MIG-1/SP-1/F1 A3/A-/A-
Money Market Funds - Taxable	N/A	20%	10%	Aaa/AAA/AAA
Money Market Funds - Tax-Exempt	N/A	20%	10%	Aaa/AAA/AAA **
Federal Agency Mortgage Backed Securities	5 years	20% *	None	None
Asset Backed Securities	5 years	20%	None	A3/A-/A- for issuer, Aa3/AA-/AA- for security

* Represents restriction in which the County's investment policy is more restrictive than the California Code

** Minimum of one credit rating required for Tax-Exempt Money Market Funds

In accordance with Government Code Sections 53620-53622 the assets of the Santa Clara County Retiree Healthcare Plan, which is reported in an Internal Service Fund, may be invested in bonds that have a final maturity of 30 years or less from purchase date and in bonds with a Moody's credit rating of A3 or higher, Standard and Poor's rating of A- or higher, or Fitch's rating of A- or higher at time of purchase and may have its fixed income holdings structured with sector concentrations comparable to those of the Barclays Capital Aggregate Bond Index. Additionally, the Board has determined that up to 67% of the Retiree Healthcare Plan assets, excluding near-term liability payouts, may be invested in equities through mutual funds or through the direct purchase of common stocks by a money management firm(s) approved by the Board.

Investments of debt proceeds held by bond trustees are governed by provisions of debt agreements, rather than the general provisions of the California Government Code or the County's investment policy.

(Dollars in thousands)

(3) Cash and Investments (Continued)

(c) Summary of Cash and Investments

Total County cash and investments are reported as follows:

	Unrestricted	Restricted	Total
Primary Government	$ 1,022,974	$ 679,544	$ 1,702,518
Component Units	172,668	28,932	201,600
Investment Trust Funds	2,840,432	5	2,840,437
Private-Purpose Trust Fund	41,624	394	42,018
Agency Funds	203,921	476	204,397
Total cash and investments	$ 4,281,619	$ 709,351	$ 4,990,970

The County's cash and investments are as follows:

Cash and deposits:	
Cash on hand	$ 96
Deposits of the County	51,471
Restricted deposits	2,272
Deposits with component units:	
Housing Authority	56,512
FIRST 5	2,923
Health Authority	34,465
Total cash and deposits	147,739
Investments:	
With Treasurer	4,703,639
With Treasurer - FIRST 5	637
With Treasurer - Health Authority	27,118
With fiscal agents	31,892
With Housing Authority	14,353
With FIRST 5	65,592
Total investments	4,843,231
Total cash, deposits and investments	$ 4,990,970

(d) Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

(Dollars in thousands)

(3) Cash and Investments (Continued)

(e) Investment Composition

As of June 30, 2013, the major classes of the County's investments consisted of the following:

				Investment Maturities (in years)				
	Interest Rates	Par Value	Fair Value	0 - 1	1 - 3	3 - 5	5 - 10	10 - 30
With Treasurer:								
Commingled pool:								
U.S. Treasury Notes	0.05% - 0.25%	$ 265,000	$ 264,979	$ 264,979	$ -	$ -	$ -	$ -
U.S. Agencies - Coupon	0.23% - 5.25%	2,637,302	2,655,929	942,795	1,484,879	228,255	-	-
U.S. Agencies - Discount	0.01% - 0.15%	320,000	319,919	319,919	-	-	-	-
Medium-term corporate notes	0.58% - 5.125%	205,500	206,661	105,484	101,177	-	-	-
Asset Backed Securities	0.35% - 1.22%	119,062	118,889	11,508	107,381	-	-	-
Municipal Bonds	0.89% - 8.3%	68,935	72,283	47,249	3,132	21,902	-	-
Repurchase Agreements	0.10%	200,000	200,000	200,000	-	-	-	-
Commercial paper	0.09% - 0.18%	125,000	124,988	124,988	-	-	-	-
Negotiable Certificates of Deposit	0.08% - 1.1%	285,000	285,109	285,109	-	-	-	-
Money Market Mutual Funds	0.01% - 0.05%	235,593	235,593	235,593	-	-	-	-
State Local Agency Investment Fund	0.24%	40,000	40,011	40,011	-	-	-	-
Subtotal commingled pool		4,501,392	4,524,361	2,577,635	1,696,569	250,157	-	-
Separate investments:								
U.S. Treasury Notes		64,902	66,687	7,465	36,737	15,475	7,010	-
U.S. Agencies - Coupon		8,000	9,047	1,000	1,004	2,280	4,763	-
U.S. Agencies - Mortgage backed securities		22,769	24,573	-	-	-	2,356	22,217
Medium-term corporate notes		27,276	28,154	2,019	6,391	8,111	8,959	2,674
Municipal bonds		22,065	23,024	15,271	6,626	1,127	-	-
Money market mutual funds		40,895	40,895	40,895	-	-	-	-
Stock mutual funds:								
Vanguard 500 Index Fund		11,767	14,653	14,653	-	-	-	-
Subtotal separate investments		197,674	207,033	81,303	50,758	26,993	23,088	24,891
Subtotal with Treasurer		4,699,066	4,731,394	2,658,938	1,747,327	277,150	23,088	24,891
With fiscal agents:								
U.S. Treasury Notes		3,500	3,516	450	994	2,072	-	-
U.S. Agencies - Coupon		8,110	8,200	2,443	2,900	2,857	-	-
Medium-term corporate notes		1,700	1,720	635	582	503	-	-
Asset Backed Securities		460	458	-	-	458	-	-
Money market mutual funds		17,998	17,998	17,998	-	-	-	-
Subtotal with fiscal agents		31,768	31,892	21,526	4,476	5,890	-	-
With Housing Authority:								
U.S. Agencies - Coupon		1,000	1,000	1,000			-	-
Money market mutual funds		174	174	174	-	-	-	-
State Local Agency Investment Fund		13,179	13,179	13,179	-	-	-	-
Subtotal with Housing Authority		14,353	14,353	14,353	-	-	-	-
With FIRST 5:								
U.S. Treasury Notes		12,105	12,191	736	5,189	6,266	-	-
U.S. Agencies - Coupon		31,155	31,755	3,905	16,786	11,064	-	-
Medium-term corporate notes		14,670	14,926	2,103	6,578	6,245	-	-
Money market funds		464	464	464	-	-	-	-
Asset Backed Securities		3,070	3,057	-	1,276	1,781	-	-
Commercial paper		3,200	3,199	3,199	-	-	-	-
Subtotal with FIRST 5		64,664	65,592	10,407	29,829	25,356	-	-
Total investments		$ 4,809,851	$ 4,843,231	$ 2,705,224	$ 1,781,632	$ 308,396	$ 23,088	$ 24,891

Custodial Credit Risk – Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

(Dollars in thousands)

(3) Cash and Investments (Continued)

Interest Rate Risk

Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by limiting the weighted average maturity of its commingled pool to eighteen months. At June 30, 2013, the County's weighted average maturity of its commingled pool is 374 days. The County invested in callable Federal Agency Bonds ($775,796 of the County's U.S. Agencies coupon position of $2,655,929) and Corporate Bonds ($10,016 of the County's Corporate Bonds position of $206,661) within its commingled pool. These investments are highly sensitive to interest rate changes and are callable at par prior to maturity based on these rate changes.

Credit Risk

Credit risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The following is a summary of the credit quality distribution for securities with credit exposure as a percentage of investments with Treasury (Commingled Pool and Separate), fiscal agent, Housing Authority, and FIRST 5 as rated by Moody's Investors Service:

Investment	Moody's Rating	% of Commingled Pool investments with the Treasury	% of Separate investments with the Treasury	% of investments with fiscal agents	% of investments with Housing Authority	% of investments with FIRST 5
U.S. Treasury	Aaa	5.8%	32.2%	11.0%	0.0%	18.6%
U.S. Agencies- Discount	Aaa	7.1%	0.0%	0.0%	0.0%	0.0%
U.S. Agencies- Coupon	Aaa	58.7%	16.2%	25.7%	7.0%	48.4%
Asset Backed Securities	Aaa	0.4%	0.0%	0.8%	0.0%	1.9%
Asset Backed Securities	Unrated	2.2%	0.0%	0.6%	0.0%	2.7%
Municipal bonds	Aaa	0.2%	1.7%	0.0%	0.0%	0.0%
Municipal bonds	Aa1	0.4%	7.1%	0.0%	0.0%	0.0%
Municipal bonds	Aa2	0.0%	0.5%	0.0%	0.0%	0.0%
Municipal bonds	Aa3	0.3%	1.3%	0.0%	0.0%	0.0%
Municipal bonds	A1	0.5%	0.6%	0.0%	0.0%	0.0%
Municipal bonds	A2	0.2%	0.0%	0.0%	0.0%	0.0%
Municipal bonds	P-1	0.0%	0.0%	0.0%	0.0%	0.0%
Municipal bonds	Unrated	0.0%	0.0%	0.0%	0.0%	0.0%
Medium-term corporate notes	Aaa	0.9%	0.5%	1.4%	0.0%	0.0%
Medium-term corporate notes	Aa1	0.1%	0.0%	1.1%	0.0%	1.8%
Medium-term corporate notes	Aa2	0.6%	1.1%	1.8%	0.0%	2.8%
Medium-term corporate notes	Aa3	2.2%	3.0%	1.1%	0.0%	3.8%
Medium-term corporate notes	A1	0.8%	2.1%	0.0%	0.0%	7.0%
Medium-term corporate notes	A2	0.0%	4.7%	0.0%	0.0%	7.4%
Medium-term corporate notes	A3	0.0%	0.6%	0.0%	0.0%	0.0%
Medium-term corporate notes	Baa1	0.0%	1.0%	0.0%	0.0%	0.0%
Medium-term corporate notes	Baa2	0.0%	0.0%	0.0%	0.0%	0.0%
Medium-term corporate notes	WR	0.0%	0.5%	0.0%	0.0%	0.0%
Medium-term corporate notes	Unrated	0.0%	0.1%	0.0%	0.0%	0.0%
Commercial paper	P-1	1.1%	0.0%	0.0%	0.0%	0.0%
Commercial paper	Aaa	0.0%	0.0%	0.0%	0.0%	4.9%
Commercial paper	Aa3	1.7%	0.0%	0.0%	0.0%	0.0%
Commercial paper	Unrated	0.0%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	P-1	4.6%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	Aa2	1.7%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	Aa3	0.0%	0.0%	0.0%	0.0%	0.0%
Repurchase Agreement	Aaa	4.4%	0.0%	0.0%	0.0%	0.0%
Money market funds	Aaa	5.2%	0.6%	56.5%	1.2%	0.3%
Money market funds	Unrated	0.0%	19.1%	0.0%	0.0%	0.4%
State Local Agency Investment Fund	Unrated	0.9%	0.0%	0.0%	91.8%	0.0%
Stock Mutual Fund	Not Applicable	0.0%	7.1%	0.0%	0.0%	0.0%
Total Investments		100.0%	100.0%	100.0%	100.0%	100.0%

(3) Cash and Investments (Continued)

Government Code Section 16429.1 authorizes each local government agency to invest funds in the State Treasurer's Local Agency Investment Fund (LAIF) administered by the California State Treasurer. The total amount recorded by all public agencies in LAIF at June 30, 2013, was approximately $21.2 billion. LAIF is part of the State's Pooled Money Investment Account (PMIA). PMIA has a total of approximately $58.8 billion as of June 30, 2013. Of that amount, 98.04% was invested in non-derivative financial products and 1.96% in structured notes and asset backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the County's position in the pool.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer. The County diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name. Investment in U.S. Treasury and Agency securities are not subject to this limitation.

More than 5% of the County's pooled investments are invested with the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, and Federal Farm Credit Bank which represent 24.1%, 23.5%, 10.4%, and 7.0%, respectively, of the County's pooled investments.

The investment policy of the Housing Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. More than 5% of the Housing Authority's investments are invested with the Federal Home Loan Bank, which represent 7.0% of the Housing Authority's investments.

More than 5% of the FIRST 5's investments are invested with the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, and Federal Farm Credit Bank which represent 15.4%, 15.3%, 13.8%, and 3.8%, respectively, of the First 5's investments.

(Dollars in thousands)

(3) Cash and Investments (Continued)

(f) Condensed Financial Information

In lieu of separately issued financial statements for the external pool, condensed financial information is presented below as of and for the year ended June 30, 2013:

Assets:		
U.S. Treasury Notes	$	331,666
U.S. Agencies - Coupon		2,664,976
U.S. Agencies - Discount		319,919
U.S. Agencies - Mortgage backed securities		24,573
Medium-term corporate notes		234,815
Asset Backed Securities		118,889
Municipal bonds		95,307
Repurchase Agreements		200,000
Commercial paper		124,988
Negotiable Certificates of Deposit		285,109
Money market mutual fund		276,488
State Local Agency Investment Fund		40,011
Stock mutual funds		14,653
Total investments		4,731,394
Other assets (Interest receivable)		14,213
Total assets	$	4,745,607
Net Position		
Equity of internal pool participants	$	1,890,957
Equity of individual investment accounts		60,811
Equity of external pool participants		2,793,839
Total net position	$	4,745,607
Statement of Changes in Net Position		
Net position at July 1, 2012	$	4,158,749
Net change in investments by pool participants		586,858
Net position at June 30, 2013	$	4,745,607
Net position composition of the equity of external pool participants is as follows:		
Participants units outstanding ($1 par)	$	2,803,907
Undistributed and unrealized loss		(10,068)
Net position at June 30, 2013	$	2,793,839
Participants net position value at fair value price per share ($2,793,839 divided by 2,803,907 units)	$	0.9964

(Dollars in thousands)

(4) Receivables

Receivables at year-end for the County's major individual funds, nonmajor and internal service funds, and governmental and business-type activities in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

Receivables - Governmental Activities	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Government-Wide Service Concession Arrangement	Total Governmental Activities
Property tax	$ 78,005	$ -	$ -	$ -	$ 78,005
Loans receivable	-	48,001	-	-	48,001
Other	177,747	12,296	6,027	7,983	204,053
Gross receivables	255,752	60,297	6,027	7,983	330,059
Less: allowance for uncollectibles	(160,749)	(294)	-	-	(161,043)
Total receivables, net	$ 95,003	$ 60,003	$ 6,027	$ 7,983	$ 169,016

Receivables - Business-type Activities	SCVMC	Nonmajor Enterprise Funds	Total Business-type Activities
Patient accounts receivable	$ 777,209	$ -	$ 777,209
Other	1,789	113	1,902
Gross receivables	778,998	113	779,111
Less allowance for uncollectibles	(680,704)	-	(680,704)
Total receivables, net	$ 98,294	$ 113	$ 98,407

Net loan receivables from housing programs in the amount of $47,707 are not expected to be collected within the subsequent year. The other receivables of General Fund in the amount of $177,747 represent receivables of various County departments and majority of the balances were allowed for at year-end.

Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2013, the components of deferred revenue reported, separated into unavailable revenue and unearned revenue, were as follows:

	Unavailable	Unearned
Governmental Activities:		
General Fund:		
Due from other governmental agencies	$ 168,777	$ 558
Other receivables	1,790	10,794
Other miscellaneous assets including cash deposits	-	26,379
Nonmajor governmental funds:		
Other receivables	57,754	67
Other miscellaneous assets including cash deposits	-	1,437
Total governmental activities	$ 228,321	$ 39,235
Business-type activities:		
SCVMC	$ -	$ 4,760
Nonmajor enterprise funds	-	80
Total business-type activities	$ -	$ 4,840

(Dollars in thousands)

(4) Receivables (Continued)

The "unavailable" due from other governmental agencies for General Fund includes the following significant receivables:

Milpitas Redevelopment Agency Elmwood Sale

In June 2003, the Milpitas Redevelopment Agency (the MRDA) entered into an agreement to purchase and sell approximately 35 acres of Elmwood surplus land in the amount of (1) $135,000 payable in installments over a 20-year period; (2) the aggregate sum of the developer negotiated value for all parcels comprising the property; and (3) 10 years of additional payments, estimated at $3,500 per year, negotiated under the Sales and Use Tax Sharing Agreement based on 50% of the sales tax revenue generated by the additional redevelopment project area together with the Elmwood commercial area. In August 2003, the County approved the agreement with KB Home South Bay, Inc. (KB Home) for the base land value of $57,750 (developer negotiated value) enabling the County's disposition of the Elmwood surplus lands and the MRDA's purchase and re-sale of the property.

On June 28, 2011, Assembly Bill X1 26 (AB X1 26) was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. As such the obligation of MRDA transferred to the Successor Agency to the Milpitas Redevelopment Agency and the enforceable obligation was approved by its Oversight Board and updated to increase the additional payments by another 2 years through 2033. The following table shows the estimated cash flows related to the sale of the Elmwood surplus lands:

			Milpitas Redevelopment Agency		
Fiscal year ending June 30,	Developer Negotiated Value	Other	Installment Payments	Additional Payments	Total
From Fiscal Year 2012 and prior	$ 57,750	$ 419	$ 56,000	$ -	$ 114,169
2013	-	-	4,000	-	4,000
2014	-	-	5,000	-	5,000
2015	-	-	5,000	-	5,000
2016	-	-	5,000	-	5,000
2017	-	-	5,000	-	5,000
2018-2022	-	-	29,000	-	29,000
2023-2027	-	-	6,000	14,000	20,000
2028-2032	-	-	-	17,500	17,500
2033	-	-	-	3,500	3,500
Total	57,750	419	115,000	35,000	208,169
Less amount received prior to June 30, 2012	(57,750)	(419)	(56,000)	-	(114,169)
Receivable at June 30, 2012	-	-	59,000	35,000	94,000
Less amount received during current year	-	-	(4,000)	-	(4,000)
Receivable at June 30, 2013	$ -	$ -	$ 55,000	$ 35,000	$ 90,000

At June 30, 2013, the County's General Fund receivable balance of $90,000 represents the remaining estimated future cash flow related to the sale of the Elmwood surplus lands. During the year ended June 30, 2013, the County recognized proceeds from the sale in the amount of $4,000 as revenue in its General Fund. At June 30, 2013, the unavailable deferred revenue balance related to this balance is $90,000.

(Dollars in thousands)

(4) Receivables (Continued)

San Jose Redevelopment Agency

In 1983, the County and the San Jose Redevelopment Agency (SJRDA) entered into a tax sharing agreement under which the SJRDA would pay a portion of tax increment revenue generated in the Merged Area and part of the Rincon de los Esteros Project Area (County Pass-Through Payment). In December 1993, the SJRDA, County, and City of San Jose entered into a settlement agreement, which continued the County Pass-Through Payment and in May 2001, the County, City of San Jose, and SJRDA approved an Amended and Restated Agreement (Amended Agreement).

In September 2009, the SJRDA informed the County that due to the State's Supplemental Educational Revenue Augmentation Funds requirement and insufficient tax increment revenues, it did not have sufficient unrestricted funds to make the fiscal year 2009-2010 County Pass-Through Payment. The SJRDA further informed the County that it has held funds for the fiscal year 2008-2009 County Pass-Through Payments pending negotiations regarding the payment. At June 30, 2010, the County recorded a receivable from the SJRDA in the amount of $45.2 million, which included the fiscal years 2008-2009 and 2009-10 County Pass-Through Payments, accumulated interest and other administration fees.

In March 2011, a settlement agreement was reached and entered into between the County, SJRDA, and City of San Jose in which the SJRDA: (1) paid the County $26.5 million during fiscal year 2010-2011; (2) transferred title to the former San Jose City Hall (valued at $8.6 million) to the County on June 30, 2011; and agreed to pay the remaining $23.78 million in five equal annual installments no later than June 30 of 2014, 2015, 2016, 2017, and 2018. Upon dissolution of the SJRDA, the enforceable obligation was approved by its Oversight Board. Under the modified accrual basis of accounting, the unavailable revenues should be deferred in governmental fund financial statements until the revenues are available to the County. At June 30, 2013, the unavailable deferred revenue balance related to this balance is $23,780.

(5) Interfund Transactions

Interfund receivables, payables, and transfers as of and for the fiscal year ended June 30, 2013, by individual fund/fund type are summarized as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 20,621
General Fund	SCVMC	33,038
General Fund	Internal Service Funds	639
Nonmajor Governmental Funds	General Fund	448
Nonmajor Governmental Funds	Nonmajor Governmental Funds	92
Nonmajor Governmental Funds	SCVMC	1,971
SCVMC	General Fund	480
SCVMC	Nonmajor Governmental Funds	5,464
Internal Service Funds	General Fund	2,453
Total		$ 65,206

(5) Interfund Transactions (Continued)

The General Fund is due $33,038 from SCVMC for current borrowings for working capital. The General Fund is due $20,621 from the Proposition 63 nonmajor special revenue fund to reimburse for Mental Health Service Act expenditures incurred by the General Fund. In addition, the SCVMC is due $5,464 from the Hospital Facilities Bonds nonmajor debt service fund for debt service payment reimbursements.

All remaining interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Advance from/to other funds:

In February 2013, the Board approved an interfund loan from the General Fund to the Child Support nonmajor special revenue fund for tenant improvements in the amount of $1,000 to be repaid over the ten-year term of the lease. The actual amount of the loan was $693. The terms of the loan include a maturity of June 30, 2023 and interest is based on the quarterly rate of return of the County Commingled Pool. At June 30, 2013, the advance balance was $676.

In December 2009, the Board approved an interfund loan for the purchase of the former San Jose Medical Center in the amount of $24,040. The loan is structured as a single loan with an interest rate commensurate with the interest that would have otherwise been earned by the Retiree Healthcare Internal Service Fund had it invested these funds. The terms of the loan include a maturity of December 31, 2015 and interest at 2.84% per annum. Interest on the loan is payable annually on December 31st of each year commencing on December 31, 2010. During the year ended June 30, 2013, the General Capital Improvement Fund repaid the loan balance of $11,040.

Payable to primary government:

During the year ended June 30, 2013, the DHCS implemented Senate Bill No. 208, which allows Designated Public Hospitals (DPHs) to voluntarily participate in the Intra-Governmental Transfer program related to Medi-Cal managed care services for the purpose of providing funding to preserve and strengthen the availability and quality services provided by DPHs and their affiliated public providers. The Health Authority received $27,272 representing the assessment and matching funds payable to SCVMC during the year. At June 30, 2013, the Health Authority has a payable to SCVMC in the amount of $27,272.

As described in Note 9(a), the Housing Authority reported its lease obligations to the County in the amount of $7,790 as a payable to primary government on its statement of net position.

(Dollars in thousands)

(5) Interfund Transactions (Continued)

Transfer in/out between funds:

The following schedule briefly summarizes the County’s transfer activities:

Transfer From	Transfer To	Amount	Purpose
Between Governmental and Business-type Activities:			
General Fund	SCVMC	$ 87,260	Transfer funds for operating subsidy.
General Fund	SCVMC	2,654	Transfer funds to pay for Supplemental Benefit Plan costs.
General Fund	SCVMC	4,543	Transfer funds to reimburse payment of Retiree benefits.
General Fund	Nonmajor Enterprise Funds	11	Transfer funds to cover rent costs for the Animal Rescue Clinic.
General Fund	Nonmajor Enterprise Funds	14	Transfer funds to reimburse payment of Retiree benefits.
SCVMC	General Fund	1,034	Transfer funds to reimburse services rendered from the Community Health Service.
SCVMC	General Fund	4,497	Transfer funds to pay for FQHC Clinic service provided by Mental Health Department.
SCVMC	Nonmajor Governmental Funds	4,815	Transfer bond proceeds to the General Capital Improvement fund for Valley Specialty Center and Valley Health Center Project.
Nonmajor Governmental Fund	SCVMC	490,353	Transfer bond proceeds to SCVMC.
Subtotal Between Governmental and Business-type Activities:		**595,181**	
Between Funds within the Governmental or Business-type Activities*:			
General Fund	Internal Service Fund	29	Transfer funds for vehicle purchase for REACT Task Force.
		218	Transfer funds to reimburse payment of Retiree benefits.
		2,000	Transfer funds for purchases in Facilities and Fleet Department.
		2,247	
General Fund	Nonmajor Governmental Fund	1,036	Transfer funds to pay debt service for Hospital Facilities Authority Bonds.
		27,068	Transfer funds to finance Facilities and Fleet Department capital projects.
		9	Transfer of funds to the Department of Environmental Health.
		51	Transfer funds to the County Library fund for annual contribution per Joint Power Authority agreement.
		194	Transfer funds to reimburse Household Waste program.
		112	Transfer funds to the Roads Department for school crossing guard project.
		116	Transfer funds to pay for operating expenses of the tobacco fund.
		538	Transfer funds to Department of Child Support Services for moving costs.
		1,038	Transfer funds to reimburse payment of Retiree benefits.
		621	Transfer to the Roads fund for Measure B Transportation Projects.
		30,783	
Internal Service Fund	Nonmajor Governmental Fund	1,414	Establish Compressed Natural Gas (CNG) fueling station.
Nonmajor Governmental funds	General Fund	3,898	Transfer funds to General Fund to pay for various debt services.
		144	Transfer fund from the Vital Statistic fund for specified ongoing operations.
		20	Transfer funds for homeless survey program.
		61,636	Transfer funds for Proposition 63 nonmajor fund for planning, administrative, and program costs for the mental health services programs.
		6,479	Transfer funds for Tech Project reimbursements.
		72,177	
Nonmajor Governmental Fund	Nonmajor Governmental Fund	721	Transfer funds to the Parks Department for Parks Capital Projects.
		1,932	Transfer of bond proceeds to Technology Bonds Fund.
		285	Transfer QECB proceeds to fund qualified Facilities & Fleet Capital Projects.
		2,938	
Between Funds within Governmental or Business-type Activities:		**109,559**	
Total Transfers:		**$ 704,740**	

* These transfers were eliminated in the consolidation, by column, for the Governmental and Business-type activities.

(Dollars in thousands)

(6) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance, July 1, 2012 (as restated) *	Additions	Reductions/ Adjustments	Transfers	Balance, June 30, 2013
Governmental activities					
Capital assets, not being depreciated:					
Land	$ 250,406	$ 12,500	$ (5,499)	$ 865	$ 258,272
Construction in progress	136,184	44,427	-	(89,132)	91,479
Total capital assets, not being depreciated	386,590	56,927	(5,499)	(88,267)	349,751
Capital assets, being depreciated:					
Infrastructure	286,540	1,175	-	25,759	313,474
Buildings and improvements	908,429	662	(16,040)	56,069	949,120
Equipment, software and vehicles	190,607	12,376	(5,687)	6,439	203,735
Total capital assets, being depreciated	1,385,576	14,213	(21,727)	88,267	1,466,329
Less accumulated depreciation for:					
Infrastructure	(106,541)	(12,513)	-	-	(119,054)
Buildings and improvements	(422,591)	(14,930)	5,660	-	(431,861)
Equipment, software and vehicles	(139,568)	(16,551)	5,679	-	(150,440)
Total accumulated depreciation	(668,700)	(43,994)	11,339	-	(701,355)
Total capital assets, being depreciated, net	716,876	(29,781)	(10,388)	88,267	764,974
Governmental activities, capital assets, net	$ 1,103,466	$ 27,146	$ (15,887)	$ -	$ 1,114,725
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 6,310	$ -	$ -	$ -	$ 6,310
Construction in progress	352,668	173,812	(2,349)	(66,231)	457,900
Total capital assets, not being depreciated	358,978	173,812	(2,349)	(66,231)	464,210
Capital assets, being depreciated:					
Buildings and improvements	806,553	5,276	(2,494)	9,221	818,556
Equipment and vehicles	101,052	21,046	(3,727)	57,010	175,381
Leasehold improvements	2,073	-	-	-	2,073
Total capital assets, being depreciated	909,678	26,322	(6,221)	66,231	996,010
Less accumulated depreciation for:					
Buildings and improvements	(326,649)	(33,266)	2,494	-	(357,421)
Equipment and vehicles	(70,628)	(15,759)	3,460	-	(82,927)
Leasehold improvements	(1,607)	(104)		-	(1,711)
Total accumulated depreciation	(398,884)	(49,129)	5,954	-	(442,059)
Total capital assets, being depreciated, net	510,794	(22,807)	(267)	66,231	553,951
Business-type activities, capital assets, net	$ 869,772	$ 151,005	$ (2,616)	$ -	$ 1,018,161

* As of July 1, 2012, the County adopted GASB Statement No. 60 and restated the capital asset - buildings and improvements balance for governmental activities by $10,709 and related accumulated depreciation by $2,983 as discussed in Note 14(a).

(Dollars in thousands)

(6) Capital Assets (Continued)

Capital asset activity for the Housing Authority for the fiscal year ended June 30, 2013, was as follows:

	Balance, July 1, 2012	Additions	Reductions/ Adjustments	Balance, June 30, 2013
Capital assets, not being depreciated:				
Land	$ 17,229	$ -	$ -	$ 17,229
Construction in progress	656	742	(1,077)	321
Total capital assets, not being depreciated	17,885	742	(1,077)	17,550
Capital assets, being depreciated:				
Buildings and improvements	16,608	-	232	16,840
Furniture and equipment	3,479	162	(104)	3,537
Total capital assets, being depreciated	20,087	162	128	20,377
Less accumulated depreciation for:				
Buildings and improvements	(5,564)	(545)	-	(6,109)
Furniture and equipment	(3,079)	(179)	104	(3,154)
Total accumulated depreciation	(8,643)	(724)	104	(9,263)
Total capital assets, being depreciated, net	11,444	(562)	232	11,114
Housing Authority's business-type activity	29,329	$ 180	$ (845)	28,664
Housing Authority's discrete component units' capital assets, as of December 31, 2012, except for Poco Way Associates which is as of May 31, 2013	374,412			365,161
Housing Authority capital assets, net	$ 403,741			$ 393,825

A copy of each of the Housing Authority's component units' separately issued audited financial statements can be obtained from the Housing Authority's management.

Capital asset activity for the FIRST 5 for the fiscal year ended June 30, 2013, was as follows:

	Balance, July 1, 2012	Additions	Reductions/ Adjustments	Balance, June 30, 2013
Capital assets, not being depreciated:				
Land	$ 2,358	$ -	$ -	$ 2,358
Total capital assets, not being depreciated	2,358	-	-	2,358
Capital assets, being depreciated:				
Buildings and improvements	4,265	-	-	4,265
Furniture and equipment	277	-	-	277
Total capital assets, being depreciated	4,542	-	-	4,542
Less accumulated depreciation for:				
Buildings and improvements	(1,474)	(213)	-	(1,687)
Furniture and equipment	(267)	(1)	-	(268)
Total accumulated depreciation	(1,741)	(214)	-	(1,955)
Total capital assets, being depreciated, net	2,801	(214)	-	2,587
FIRST 5 capital assets, net	$ 5,159	$ (214)	$ -	$ 4,945

(Dollars in thousands)

(6) Capital Assets (Continued)

Capital asset activity for the Health Authority for fiscal year ended June 30, 2013, was as follows:

	Balance, July 1, 2012	Additions	Reductions/ Adjustments	Balance, June 30, 2013
Capital assets, being depreciated:				
Furniture and equipment	$ 5,963	$ 401	$ -	$ 6,364
Leasehold improvements	358	23	-	381
Total capital assets, being depreciated	6,321	424	-	6,745
Less accumulated depreciation for:				
Furniture and equipment	(5,273)	(585)	-	(5,858)
Leasehold improvements	(295)	(84)		(379)
Total accumulated depreciation	(5,568)	(669)	-	(6,237)
Total capital assets, being depreciated, net	753	(245)	-	508
Health Authority capital assets, net	$ 753	$ (245)	$ -	$ 508

Depreciation

Depreciation expense was charged to governmental functions for the year ended June 30, 2013, as follows:

General government	$ 23,366
Public protection	3,956
Public ways	10,903
Health and sanitation	511
Public assistance	955
Education	402
Recreation	1,536
Amount reported in the internal service funds	2,365
Total depreciation expense - governmental functions	$ 43,994

Depreciation expense was charged to the business-type functions for the year ended June 30, 2013 as follows:

SCVMC	$ 48,181
Airport	915
Sanitation District	33
Total depreciation expense - business-type functions	$ 49,129

(Dollars in thousands)

(6) Capital Assets (Continued)

Capital Projects Commitments

As of June 30, 2013, the SCVMC and the Airport have active construction projects that include construction of the seismic compliance for SCVMC buildings and infrastructure and facility improvement of airport projects.

The County's commitments for business-type activities as of June 30, 2013, are as follows:

Projects	Expended to June 30, 2013	Committed as of June 30, 2013
Hospital Projects	$ 456,940	$ 900,443
Airport Projects	960	-
Total	$ 457,900	$ 900,443

Nonmajor governmental funds (Special Revenue and Capital Projects Funds) also have active construction projects as of June 30, 2013. They are as follows:

- Road projects include: rehabilitation and replacement; road, highway and bridge repair, maintenance and improvements; Intelligent Transportation System; signal synchronization program projects; and pedestrian and bicycle route improvements.

- Parks projects include: Almaden Park quicksilver toxic mitigation; Anderson Dam Visitor Center; Martial Cottle master plan phase I; and improvement to various County Parks facilities.

- General Capital projects include: construction of the County Library Headquarters; demolition and abatement of former the San Jose Medical clinic in the downtown area of San Jose; construction of the San Jose downtown health center; installation and replacement of Malech road water supply; continued renovation and improvement of the Juvenile Hall Housing detention buildings; and remodeling, repair, and replacement of County buildings.

The County's governmental activities commitments at June 30, 2013, are as follows:

Projects	Expended to June 30, 2013	Committed as of June 30, 2013
Road projects	$ 24,767	$ 14,854
Park projects	20,440	27,549
General capital projects	46,272	3,196
Total	$ 91,479	$ 45,599

(Dollars in thousands)

(7) Capital Leases

The County leases certain vehicles and equipment, obtained under various lease financing agreements. The leases expire at various times through fiscal year 2017. As of June 30, 2013, the governmental activities' capital assets and accumulated depreciation under capital leases are:

Description		
Equipment and vehicles	$	1,112
Less accumulated depreciation		(181)
Net capital assets	$	931

The Future minimum lease payments under governmental activities capital leases are:

Fiscal year ending June 30,		
2014	$	236
2015		126
2016		88
2017		77
Total		527
Amount representing interest at rates from 1.967% to 7.259%		(36)
Present value of future minimum lease payments	$	491

(8) Short-Term Debt

(a) Teeter Plan Obligation Commercial Paper Notes

As discussed in Note 1(j), in 1994 the Board adopted the Teeter Plan. The Teeter Plan provides for a tax distribution procedure in which secured roll (exclusive of the supplemental roll) taxes are distributed to participating taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. Taxing entities that maintain funds in the County Treasury are included in the Teeter Plan; other taxing entities may elect to be included in the Teeter Plan. Taxing entities that do not elect to participate in the Teeter Plan (City of Sunnyvale and Town of Los Gatos) are paid as taxes are collected.

On June 25, 2012, the County issued $109,285 in Teeter Plan Obligation Commercial Paper Notes Series A with initial maturity dates ranging from July 6, 2012, through October 9, 2012, and interest rates from 0.18% to 0.20%.

On June 25, 2013, the Teeter notes of $109,285 were rolled over in the amount of $85,000 with initial maturity dates ranging from August 15, 2013 through September 11, 2013 and interest rates of 0.10% to 0.13%. On September 11, 2013, the County paid off these notes and discontinued the Teeter financing program.

(Dollars in thousands)

(8) Short-Term Debt (Continued)

These notes were issued under the authority of Section 4701, *et seq.* of the California Revenue and Taxation Code and the Trust Agreement dated September 1, 2010, as supplemented by the First Supplement to the Trust Agreement dated June 1, 2011, by and between the County and U.S. Bank N.A. Such notes are authorized to be issued from time to time to finance and refinance the County's obligation to make distributions of certain uncollected property tax levies and pay the cost of issuance for the notes, and will mature not more than 270 days after their respective date of issuance provided that no notes may have a maturity date later than the date which is five days prior to the expiration date of the Letter of Credit.

These notes are payable from the County's General Fund. The County had also pledged the Series A Taxes as defined in the Second Supplemental Trust Agreement between the County and U.S. Bank National Association, as Trustee, dated as of June 1, 2013 to the payment of these notes; however, all payments on these notes were made by draws on the Letter of Credit. Series A Taxes include taxes from the fiscal year ended June 30, 2013 and have the following meaning: (i) the right to collect any uncollected tax-defaulted secured roll property taxes and assessments due to the County and the revenue special districts for all fiscal years through the fiscal year ended June 30, 2013 and such other fiscal year, if any, as may be specified in a Supplemental Trust Agreement, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, and (iii) all amounts received by the County upon the redemption of properties for sale or previously sold to recover such property taxes or assessments. The payments of principal and interest, if any, on these notes are supported by an irrevocable direct pay letter of credit issued by J.P. Morgan. The letter of credit expired on September 11, 2013 with the discontinuance of the Teeter financing program.

(b) Housing Authority Line of Credit

The Housing Authority maintains a $5,000 line of credit, which provides the Housing Authority with a ready means of short-term financing. In November 2010, the Housing Authority agreed to grant the bank a security interest in its money market account maintained at the bank and extended the maturity date to September 16, 2016. The line of credit bears interest at a rate of prime rate minus 0.5% and is at 3.25% at June 30, 2013, which is payable monthly.

(c) Short-Term Debt Activity

	Primary Government	Component Units
Balance, beginning of year	$ 109,285	$ 1,025
Additions	85,000	-
Reductions	(109,285)	(801)
Balance, end of year	$ 85,000	$ 224

(Dollars in thousands)

(9) Long-Term Liabilities

As of June 30, 2013, outstanding long-term obligations consisted of the following:

Type of indebtedness (purpose)	Final Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2013
Governmental activities:					
2007 Taxable Pension Funding Bonds	8/1/13- 8/1/36	5.74% - 6.14%	$3,576 - $51,560	$ 389,485	$ 378,995
2009 Series A General Obligation Bonds	8/1/13 - 8/1/39	3.00% - 5.00%	$1,100 - $32,500	350,000	315,800
2013 Series B General Obligation Bonds	8/1/14 - 8/1/43	3.00% - 5.00%	$4,420 - $29,340	490,000	490,000
El Camino Hospital District Hospital Facilities Authority:					
1985 Series A & B ACES Lease Revenue Bonds	8/1/13	(1)	$10,709	19,205	10,709
Financing Authority:					
1994 Series B Lease Revenue Bonds	11/15/23 - 11/15/25	(2)	$233 - $262	742	742
1997 Series A Lease Revenue Bonds	11/15/13	5.75%	$1,632	16,649	1,632
2003 Series C Lease Revenue Bonds	5/15/14 - 5/15/23	4.00% - 5.00%	$1,090 - $1,645	20,025	13,400
2006 Series I Lease Revenue Bonds	5/15/14 - 5/15/31	4.00% - 5.00%	$2,837 - $5,927	87,575	75,382
2007 Series K Lease Revenue Bonds	5/15/14 - 5/15/37	4.00% - 5.00%	$505 - $1,460	22,656	21,260
2008 Series A Lease Revenue Bonds	11/15/14 - 11/15/22	5.00%	$161 - $238	5,579	1,778
2008 Series L Lease Revenue Bonds	5/15/14 - 5/15/36	4.00% - 5.25%	$1,085 - $4,600	59,800	54,620
2010 Series N Lease Revenue Bonds	5/15/14 - 5/15/17	4.00% - 5.00%	$5,395 - $5,915	47,188	22,780
2011 Series A Lease Revenue Bonds	2/1/14-2/1/26	5.90%	$871 - $2,153	20,368	18,527
2011 Series B Lease Revenue Bonds	2/1/14-2/1/26	4.91%	$244 - $282	3,639	3,410
2012 Series A Lease Revenue Bonds	2/1/14-2/1/24	4.00% - 5.00%	$1,404 - $2,180	19,315	19,315
Housing Authority:					
2004 Series A Lease Revenue Bonds	9/1/13 - 9/1/29	(3)	$105 - $255	3,550	2,925
2006 Series A Lease Revenue Bonds	9/1/13 - 9/1/38	5.00%	$50 - $510	5,125	4,865
Silicon Valley Tobacco Securitization Authority:					
Tobacco Settlement Asset-Backed Bonds	6/1/36 - 6/1/56	5.63% - 6.85%	$4,408 - $43,604	102,030	102,030
2006 Series TT Vector Control COP	6/1/14 - 6/1/27	3.75%-5.00%	$180- $330	4,495	3,455
Total governmental activities				$ 1,667,426	$ 1,541,625
Business-type activities					
SCVMC:					
El Camino Hospital District Hospital Facilities Authority:					
1985 Series A & B ACES Lease Revenue Bonds	8/1/13	(1)	$10,991	$ 55,795	$ 10,991
Financing Authority:					
1994 Series B Lease Revenue Bonds	11/15/23 - 11/15/25	(2)	$15,967 - $17,938	50,758	50,758
1997 Series A Lease Revenue Bonds	11/15/13	5.75%	$10,633	171,756	10,633
2006 Series I Lease Revenue Bonds	5/15/14 - 5/15/31	4.00% - 5.00%	$1,988 - $4,153	62,165	52,818
2007 Sereis K Lease Revenue Bonds	5/15/14 - 5/15/37	4.00% - 5.00%	$1,570 - $4,565	70,885	66,530
2008 Series A Lease Revenue Bonds	11/15/14 - 11/15/22	5.00%	$10,674- $15,657	120,831	117,503
2008 Series L Lease Revenue Bonds	5/15/14 - 5/15/36	4.00% - 5.25%	$9,530 - $11,750	53,040	53,040
2008 Series M Lease Revenue Bonds	5/15/14 - 5/15/35	(4)	$4,300 - $8,300	143,105	133,950
2012 Series A Lease Revenue Bonds	8/1/13 - 2/1/24	4.00% - 5.00%	$4,916 - $7,630	67,604	67,604
Total SCVMC				795,939	563,827
Airport:					
ABAG Series 2002-1 Lease Revenue Bonds	7/1/13 - 7/1/32	4.50% - 5.00%	$185 - $355	6,780	4,785
Total business-type activities				$ 802,719	$ 568,612

(1) Variable rate, 0.06% effective as of June 30, 2013.
(2) Variable rate, 0.07% effective as of June 30, 2013.
(3) Variable rate, 0.08% effective as of June 30, 2013.
(4) Variable rate, 0.07% effective as of June 30, 2013.

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2013:

	Balance, June 30, 2012	Additions	Retirements	Balance, June 30, 2013	Amounts Due Within One Year
Governmental activities:					
Lease Revenue Bonds	$ 247,171	$ 19,316	$ (15,142)	$ 251,345	$ 26,965
Unamortized premium	5,444	2,828	(934)	7,338	946
Unamortized deferred loss on refunding	(2,438)	-	371	(2,067)	(371)
Tobacco Settlement Asset-Backed Bonds	102,030	-	-	102,030	-
Accreted interest on capital appreciation bonds	37,901	8,378	-	46,279	-
Taxable Pension Funding Bonds	383,035	-	(4,040)	378,995	3,576
Accreted interest on capital appreciation bonds	29,928	7,143	-	37,071	1,464
Certificates of Participation	3,630	-	(175)	3,455	180
Unamortized premium	128	-	(8)	120	8
General Obligation Bonds	316,800	490,000	(1,000)	805,800	1,100
Unamortized premium	10,917	41,794	(807)	51,904	1,778
Subtotal governmental bonds	1,134,546	569,459	(21,735)	1,682,270	35,646
Capital Lease Obligations (Note 7)	323	386	(218)	491	220
Accrued litigation liability	2,500	-	-	2,500	-
Insurance claims (Note 13)	116,721	57,550	(56,339)	117,932	33,995
Net OPEB Obligation (Note 12(f) and 12(g))	243,143	78,566	-	321,709	-
Pollution Remediation Obligations (Note 15)	-	5,900	-	5,900	-
Accrued vacation & sick leave	138,715	91,803	(90,154)	140,364	11,673
Total governmental activities	$ 1,635,948	$ 803,664	$ (168,446)	$ 2,271,166	$ 81,534
Business-type activities:					
SCVMC Lease Revenue Bonds	$ 518,811	$ 67,604	$ (22,588)	$ 563,827	$ 34,398
Unamortized discount	(106)	-	77	(29)	(29)
Unamortized premium	10,409	9,899	(1,584)	18,724	1,671
Unamortized deferred loss on refunding	(15,920)	-	1,736	(14,184)	(1,500)
Subtotal SCVMC bonds	513,194	77,503	(22,359)	568,338	34,540
Airport Lease Revenue Bonds	4,965	-	(180)	4,785	185
Unamortized discount	(16)	-	1	(15)	(1)
Subtotal Airport bonds	4,949	-	(179)	4,770	184
Accrued vacation & sick leave	68,813	55,742	(56,581)	67,974	10,931
Total business-type activities	$ 586,956	$ 133,245	$ (79,119)	$ 641,082	$ 45,655
Component Units:					
Housing Authority:					
Notes payable	$ 1,400	$ -	$ (2)	$ 1,398	$ 20
Payment in lieu of taxes	89	-	(50)	39	5
Accrued vacation & sick leave	1,081	848	(1,081)	848	335
Long-term interest payable	555	23	-	578	-
Housing Authority's business type activity	3,125	$ 871	$ (1,133)	2,863	360
Housing Authority's discrete component units' long-term obligations as of December 31, 2012, except for Poco Way Associates which is as of May 31, 2013					
Notes, loans, and bonds payable	289,780			281,501	3,528
Long-term interest payable	22,252			24,904	-
Housing Authority's discrete component units	312,032			306,405	3,528
Total Housing Authority	$ 315,157			$ 309,268	$ 3,888
FIRST 5:					
Accrued vacation & sick leave	$ 182	$ -	$ (4)	$ 178	$ -

A copy of each of the Housing Authority's component units separately issued audited financial statements can be obtained from the Housing Authority's management.

(9) Long-Term Liabilities (Continued)

(a) Governmental Activities

2007 Taxable Pension Funding Bonds

In July 2007, the County issued 2007 Taxable Pension Funding Bonds in the amount of $389,485 to refinance a portion of the County's statutory obligations to make payments to the State of California Public Employees' Retirement System (PERS) for certain amounts arising as a result of retirement benefits accruing to County employees. The bonds were comprised of current interest bonds and capital appreciation bonds. The current interest bonds were issued for $302,180 and bear fixed interest rates ranging from 5.56% to 6.11%, and have a final maturity date of August 1, 2036. The capital appreciation bonds were issued for $87,305 with interest rates ranging from 5.74% to 6.14% and have a final maturity date of August 1, 2029.

2009 Series A and 2013 Series B General Obligation Bonds

On November 4, 2008, the County voters approved Measure A – Hospital Seismic Safety and Medical Facilities authorizing the issuance of $840,000 in general obligation bonds to rebuild and improve the seismically deficient medical facilities.

On May 27, 2009, the County issued 2009 Series A General Obligation Bonds in the amount of $350,000. The bonds bear fixed interest rates ranging from 3.00% to 5.00% which are payable semi-annually commencing February 1, 2010 and have a final maturity of August 1, 2039.

On March 6, 2013, the County issued 2013 Series B General Obligation Bonds in the amount of $490,000. The bonds bear fixed interest rates ranging from 3.00% to 5.00% which are payable semi-annually commencing August 1, 2013. The series will mature on August 1, 2043.

Santa Clara County - El Camino Hospital District Hospital Facilities Authority

The Santa Clara County – El Camino Hospital District Hospital Facilities Authority (Hospital Facilities Authority) was organized in 1979 as a governmental agency by a Joint Exercise of Powers Agreement between the County and the El Camino Hospital District. The Hospital Facilities Authority was organized to finance the construction of a kidney dialysis facility, hospital administrative and storage facilities, and other improvements adjacent to El Camino Hospital, and to provide for the construction and renovation of the Santa Clara Valley Medical Center (SCVMC). The El Camino facilities were completed in 1982 and the SCVMC facilities were substantially completed in 1990.

The 1985 Series A and B Adjustable Convertible Extendable Securities (ACES) Lease Revenue Bonds were issued by the Hospital Facilities Authority to provide financing for the acquisition, construction, and renovation of various Santa Clara Valley Health and Hospital System projects, including the Valley Health Center, Patient Care Tower, Psychiatric Inpatient Facility, and Cogeneration Facility. The debt is allocated between the County's governmental activities and SCVMC to reflect the use of bond proceeds to construct assets operated by the departments reported in the governmental activities and SCVMC, respectively. The bonds bear interest at an adjustable rate, which is determined weekly. The weekly rate is the rate that results in the market value of the bonds being equal to their par value.

(9) Long-Term Liabilities (Continued)

In connection with the issuance of the 1985 ACES Lease Revenue Bonds, the Hospital Facilities Authority obtained an irrevocable letter of credit as a credit facility with State Street Bank and Trust Company. At June 30, 2013, the letter of credit was set to expire on August 8, 2013. The Hospital Facilities Authority's repayment of unreimbursed draws made on the credit facility bears interest at rates as defined in the reimbursement agreement up to 12% per annum with the principal due at August 8, 2013. The Authority is required to pay State Street Bank and Trust Company an annual commitment fee of 0.45% based on the outstanding principal amount of the bonds supported by the credit facility. The amount of the irrevocable letter of credit agreement, as of June 30, 2013 was $22,092. For the year ended June 30, 2013, the Hospital Facilities Authority paid an annual commitment fee in the amount of $102. On August 1, 2013, the Hospital Facilities Authority repaid all of its outstanding bonds payable in the amount of $21,700.

Financing Authority

The Santa Clara County Financing Authority (the Financing Authority) was formed in 1994 by a joint exercise of powers agreement between the County and the Santa Clara County Central Fire Protection District (Central Fire). The Financing Authority commenced operations in the County with the issuance of bonds pursuant to the Marks-Roos Local Bond Pooling Act of 1985.

2003 Series C Lease Revenue Bonds – On December 18, 2003, the County through the Financing Authority issued 2003 Series C Lease Revenue Bonds in the amount of $20,025. These bonds were issued to embark on a number of long-term capital projects including the construction of a new courthouse in the City of Morgan Hill.

2010 Series N Lease Revenue Bonds – On February 18, 2010, the Financing Authority issued $50,110 of 2010 Series N Lease Revenue Bonds on behalf of the County and SCVMC. The bond proceeds including premiums of $4,264 were used to current refund the outstanding 1998 Series A and 2000 Series B Lease Revenue Bonds. The bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of May 15, 2017. The SCVMC portion of this debt of $2,922 matured on May 15, 2012.

2011 Series A & B Qualified Energy Conservation Bonds – On February 10, 2011 the County through the Financing Authority, issued the taxable 2011 Series A Lease Revenue Bonds, Qualified Energy Conservation Bonds (QECB), in the amount of $20,368 pursuant to an allocation to the County by the California Debt Limit Allocation Committee. On October 27, 2011, the Financing Authority issued another series of QECB, 2011 Series B Lease Revenue Bonds, in the amount of $3,639 on behalf of the County. Series A was to finance acquisition, installation, implementation and construction of solar electric generation systems on four County sites, cost of issuance and related fees and expenses. Series B was to fund lighting upgrades and lighting controls with energy efficient systems. Both series will mature on February 1, 2026.

QECBs are a form of taxable lease revenue bonds which receive a direct subsidy payment from the Federal government to help offset the cost of the borrowing. The subsidy is intended to promote qualified energy projects. The federal subsidy equates to approximately 70% of the interest cost of the financing. Effective March 1, 2013, due to the effect of sequester reductions, the Federal interest

(9) Long-Term Liabilities (Continued)

subsidy was reduced by 8.7% through September 30, 2013. Effective October 1, 2013 through September 30, 2014, the Federal interest subsidy will be reduced by 7.2%. Absent of Congressional action, the sequester reductions will continue through and including Federal's fiscal year ended September 30, 2021 and the sequester reduction percentage will vary between future years.

Debt service payments for the QECBs are serviced by the General Fund. The actual savings will depend on the actual reduction in future utility costs as a result of the solar panel and energy efficient system projects.

Housing Authority Lease Revenue Bonds - On September 1, 2004, the County through the Financing Authority issued 2004 Series A Lease Revenue Bonds in the amount of $3,550 that bear interest that is set each week by the remarketing agent based upon prevailing interest rates for 7-day variable rate demand bonds of similar credit quality trading in the municipal market place during the week. The bonds were issued to refund and redeem the Housing Authority's 1993 Certificates of Participation (COPS) in fiscal year 2005. On October 19, 2006, the Financing Authority issued $5,125 of 2006 Lease Revenue Bonds (2006 Bonds) on behalf of the Santa Clara County. The bond proceeds were used to provide additional financing for the renovation of an office building used by the Housing Authority. The 2006 Bonds bear fixed interest rates of 5.00% and are payable semi-annually commencing September 1, 2008 and mature on September 1, 2038. The Housing Authority has reported its lease obligations to the County as payable to primary government on its statement of net position.

In connection with the issuance of the 2004 Series A Lease Revenue Bonds, the County, on behalf of the Financing Authority, obtained an irrevocable letter of credit as a credit facility with U.S. Bank N.A. for these bonds. At June 30, 2013, the letter of credit was set to expire on September 1, 2015. The Financing Authority's repayment of unreimbursed draws made on the credit facility bears interest at rates as defined in the reimbursement agreement up to LIBOR plus 4% per annum with the principal due at September 1, 2015. The Financing Authority is required to pay U.S. Bank N.A. an annual commitment fee of 1.50% based on the outstanding principal amount of the bonds supported by the credit facility. For the year ended June 30, 2013, the Housing Authority paid an annual commitment fee in the amount of $45.

The Business-type Activities section of this note at (b) describes the governmental activities portions of the Financing Authority's 1994, 1997, 2006, 2007, 2008, and 2012 Lease Revenue Bonds.

Silicon Valley Tobacco Securitization Authority

In accordance with GASB Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Silicon Valley Tobacco Securitization Authority (JPA) and the Santa Clara County Tobacco Securitization Corporation (Corporation) have been included in the basic financial statements as blended component units of the County. The Corporation borrowed from the JPA the proceeds of the Series 2007 Tobacco Settlement Asset-Backed Bonds issued by the JPA on January 12, 2007 for $102,030 pursuant to a secured loan agreement. The Corporation then applied the loan proceeds to purchase the County's portion of its rights, title and interest in the Tobacco Settlement Revenues (TSRs) according to a purchase and sale agreement dated as of January 1, 2007 between the County and the Corporation (sale agreement). The Series 2007 bonds are primarily secured by a portion of TSRs that are payable to the County and sold to the Corporation pursuant to the sale agreement.

(9) Long-Term Liabilities (Continued)

The first Series A Capital Appreciation Bonds (CABs) were issued for $43,604 with an interest rate of 5.63%, final turbo redemption date on June 1, 2031 and due date of June 1, 2036. The second Series A CABs were issued for $11,338 with an interest rate 5.68%, final turbo redemption date on June 1, 2033 and due date on June 1, 2041. The third Series A CABs were issued for $13,618 with an interest rate of 5.70%, final turbo redemption date on June 1, 2036 and due date on June 1, 2047.

Series B CABs were issued for $4,408 with an interest rate of 5.85%, final turbo redemption date on June 1, 2036 and due date of June 1, 2047. Series C CABS were issued for $20,161 with an interest rate of 6.30%, final turbo redemption date on June 1, 2042 and due date of June 1, 2056. Series D CABs were issued for $8,901 with an interest rate of 6.85%, final turbo redemption date on June 1, 2046 and due date of June 1, 2056.

In the event of a decline in the tobacco settlement revenues for any reason, including the default or bankruptcy of a participating cigarette manufacturer, resulting in a decline in the tobacco settlement revenues and possible default on the Tobacco Securitization debt, neither the JPA, County, nor Corporation has any liability to make up any such shortfall.

2006 Series TT Vector Control Certificates of Participation

During November 2006, the County issued 2006 Series TT Certificates of Participation in the amount of $4,495 through the California Special Districts Association Finance Corporation to finance the acquisition of an office building. The Certificates bear fixed interest rates ranging from 3.625% to 5.00% and have a final maturity date of June 1, 2027.

(b) Business-type Activities

SCVMC

Santa Clara - El Camino Hospital District Hospital Facilities Authority

The 1985 Series A & B ACES Lease Revenue Bonds were issued to provide financing for the acquisition, construction, and renovation of various SCVMC components, as previously described in the Governmental Activities section of this note at (a).

Financing Authority

1994 Series A & B Lease Revenue Bonds **-** On December 15, 1994, the Financing Authority issued the 1994 Series A and B Lease Revenue Bonds. The proceeds financed the design, construction, remodeling, and equipping of existing and new medical facilities at the SCVMC. The County leases to, and then leases back from, the Financing Authority the projects financed along with the real property on which they are situated. Annual base rental payments from the County approximate the bonds' debt service requirements. If necessary, monies apportioned to the County in the State's Motor Vehicle License Fee Account can be used toward meeting the lease obligation. The 1994 Series A Lease Revenue Bonds matured on November 15, 2011.

(9) Long-Term Liabilities (Continued)

The Series B bonds, issued for $51,500, bear interest at variable rates set daily, weekly, semi-annually, or on a term basis, as determined by the remarketing agent. Series B bonds also contain an early redemption provision, allowed at call rates of 100% of the bonds' face value, plus accrued interest. The 1994 Series B bonds are secured by an irrevocable letter of credit (credit facility) pursuant to a Standby Bond Purchase Agreement with JP Morgan Chase Bank N.A. dated November 1, 2000. At June 30, 2013, the irrevocable letter of credit amount was $52,126 and the expiration date is November 1, 2016. The Financing Authority's repayment of unreimbursed draws made on the credit facility bear interest at rates as defined in the Standby Bond Purchase Agreement up to 12% per annum with the principal due at November 1, 2016. The Financing Authority is required to pay JP Morgan Chase Bank N.A. an annual commitment fee of 1.15% effective July 6, 2012 (0.85% before July 6, 2012) based on the outstanding principal amount of the bonds supported by the credit facility. For the year ended June 30, 2013, the Financing Authority paid an annual commitment fee in the amount of $627.

***1997 Series A Lease Revenue Bonds and 2008 Series A Lease Revenue Bonds* -** The Financing Authority's 1997 Series A Lease Revenue Bonds, issued for $188,405 on October 1, 1997, advance refunded $146,975 of the 1994 Series A Lease Revenue Bonds and all $16,405 of outstanding debt for the Public Facilities Corporation 1988 COPs. Debt payments on the 1997 Series A Lease Revenue Bonds are insured by a municipal bond insurance policy issued by AMBAC Assurance Corporation. On February 14, 2008, the Financing Authority issued $126,410 of 2008 Series A Lease Revenue Bonds on behalf of the County and SCVMC to current refund a portion of outstanding 1997 Series A Lease Revenue Bonds. The 2008 Series A Bonds net proceeds and amounts available from the refunded bonds were used to establish a refunding escrow on the date of the issuance of the 2008 Series A Lease Revenue Bonds. The 1997 Series A Lease Revenue Bonds in the amount of $131,415 were redeemed on March 17, 2008 and have been removed from the County's basic financial statements. The 2008 Series A Lease Revenue Bonds bear fixed interest rates ranging from 3.00% to 5.00% and have a final maturity date of November 15, 2022.

***2006 Series I Lease Revenue Bonds* -** On March 2, 2006, the County through the Financing Authority issued 2006 Series I Lease Revenue Bonds in the amount of $149,740. The bonds were issued to finance the construction costs of the County Crime Laboratory Facility; the Valley Health Clinics at Fair Oaks and in Gilroy; and seismic retrofitting costs of Santa Clara Courthouse. The bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of May 15, 2031.

***2007 Series K Lease Revenue Bonds* -** On August 15, 2007, the Financing Authority issued $93,540 of 2007 Series K Lease Revenue Bonds on behalf of the County and SCVMC. The bond proceeds were used for (i) the acquisition, site preparation, construction, furnishing and equipping of the Fleet Facility; (ii) the acquisition, site preparation, construction, furnishing and equipping of the Health Clinic, including a nearby parking garage; and (iii) the seismic retrofitting of the Los Gatos Courthouse and the Hall of Justice – West. The bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of May 15, 2037.

(9) Long-Term Liabilities (Continued)

***2008 Series L Lease Revenue Bonds* -** On May 22, 2008, the Financing Authority issued $112,840 of 2008 Series L Lease Revenue Bonds on behalf of the County and SCVMC to refund the County's outstanding 2003 Series D and 2005 Series H bond, and SCVMC's outstanding 2006 Series J Lease Revenue Bonds. The 2008 Series L Lease Revenue Bonds bear fixed interest rates ranging from 4.00% to 5.25% and have a final maturity date of May 15, 2036.

***2008 Series M Lease Revenue Bonds* -** On May 29, 2008, the Financing Authority issued $143,105 of 2008 Series M Lease Revenue Bonds on behalf of the County and SCVMC. The bond proceeds were used to refund the outstanding 2005 Series F and 2005 Series G Lease Revenue Bonds on June 4, 2008. The bonds initially bear variable interest based on the weekly interest rate as defined in the bond indenture and have a final maturity date of May 15, 2035.

In connection with the issuance of the 2008 Series M Lease Revenue Bonds, the Financing Authority obtained an irrevocable letter of credit as a credit facility with Bank of America, N.A. The letter of credit is set to expire on October 31, 2015. If Bank of America, N.A. elected not to extend the expiration date, the variable rate bonds would convert to Bank Bonds with repayments made in accordance with the maturity schedule provided in the Trust Agreement and these Bank Bonds would bear interest at the Bank Rate which is up to 12% per annum. The Financing Authority is required to pay Bank of America, N.A. an annual commitment fee of 0.60%, effective September 18, 2012 (1.00% before September 18, 2012) based on the outstanding principal amount of the bonds supported by the credit facility. For the year ended June 30, 2013, the Authority paid an annual commitment fee in the amount of $1,037.

Interest Rate Swap Related to the 2008 Series M Lease Revenue Bonds

In May 2005, the County through the Financing Authority issued 2005 Series F and 2005 Series G Lease Revenue Bonds (2005 Series F and G bonds) in the amount of $71,025 and $71,025, respectively. The bonds were issued to provide funds for the Charcot Center, Valley Specialty Center and Morgan Hill Courthouse. In May 2008, the County through the Financing Authority issued lease revenue bonds 2008 Series M in the amount of $143,105 to fully refund the 2005 Series F and G in the total amount of $142,050. The difference of principal amount between the 2008 Series M and the refunded 2005 Series F and G bonds in the amount of $1,055 represents additional funding for the cost of issuance of 2008 Series M and was fully paid on fiscal year 2011. The payment schedule for the 2008 Series M starting fiscal year 2012 remains the same as the combined debt service schedule for the refunded 2005 Series F and G bonds.

Objective of the Interest Rate Swaps. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2005, the Financing Authority entered into interest rate swap agreements with Citibank, N.A. (Citibank) in connection with its $71,025 Series F and $71,025 Series G variable rate lease revenue bonds. The intention of the swaps was to effectively change the Financing Authority's variable interest rates on the 2005 Series F and G bonds to a synthetic fixed rate of 3.185%. The Financing Authority continued to hedge the 2008 Series M bonds with the 2005 swap agreement.

(9) Long-Term Liabilities (Continued)

Significant Terms. The bonds and related swap agreements both mature on May 15, 2035. The swaps' notional amount matches the $142,050 principal amount of the 2008 Series M variable rate bonds. The swaps were entered into at the same time the 2005 Series F and G bonds were issued in May 2005. Starting fiscal year 2012, the notional value of the swaps declines as the principal amount of the associated debt begins to be repaid. Under the swaps, the Financing Authority pays the counterparty a fixed payment of 3.185% and receives a variable payment computed as 56.5% of USD-LIBOR-BBA plus 0.33%.

Fair Value. The swaps had a combined aggregate negative fair value of $17,007 as of June 30, 2013. Since coupons on the Financing Authority's variable rate securities adjust to changing interest rates, they do not have a corresponding fair value increase. The fair value is the net present value of the swaps using market data and the terms of the swaps, which include the expectations of the probability of occurrence of certain underlying events as defined in the swaps' documentation.

Credit Risk. The aggregate fair value of the swaps represented the Financing Authority's credit exposure to the counterparties as of June 30, 2013. Should the counterparties fail to perform according to terms of the swap contracts, the Financing Authority faced a maximum possible loss equivalent to the aggregate fair value of the swaps. At June 30, 2013, the Financing Authority was not exposed to credit risk because the swaps had a negative fair value of $17,007. To mitigate the potential credit risk, the counterparties are required to post collateral, in the form of cash or federal government securities, if their credit ratings for long-term unsecured debt obligations fall below "A" by Moody's Investors Service or "A" by Standard and Poor's or Fitch Ratings. As of June 30, 2013, Citibank's ratings were A3 by Moody's, A by Standard and Poor's, and A by Fitch Ratings.

Basis Risk. The Financing Authority has chosen a variable index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Financing Authority is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. As a result of changing basis between LIBOR and the rate on the Financing Authority's bonds during the course of the year, the synthetic fixed rate for the fiscal year ended June 30, 2013, was 2.817%.

Termination Risk. The Financing Authority or Citibank may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may be terminated by the Financing Authority if Citibank's credit rating of long-term, unsecured, unenhanced senior debt obligations is withdrawn, suspended or falls below "Baa1" as determined by Moody's Investors Service, or "BBB+" as determined by Standard and Poor's, or fail to have any rated long-term, unsecured, unenhanced senior debt obligations. The swaps may be terminated by Citibank if the County's rating of long-term, unsecured, unenhanced senior debt obligations or lease obligations of the County is withdrawn, suspended or falls below "Baa3" as determined by Moody's Investors Service, or "BBB-" as determined by Standard and Poor's, or the County fails to have any rated long-term, unsecured, unenhanced senior debt obligations or lease obligations.

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

Counterparty Risk. The Financing Authority is exposed to counterparty risk, which is related to credit and termination risk. The termination of the swaps may result in a payment to the counterparty. The Financing Authority may also be exposed to counterparty risk in a high interest rate environment in the event the counterparty is unable to perform its obligations on a swap transaction leaving the Financing Authority exposed to the variable rates on the associated debt.

Interest Rate Risk. The swaps are structured to reduce the County's exposure to interest rate risk.

Rollover Risk. The Financing Authority is not exposed to rollover risk as the swaps matched the terms of the 2008 Series M Bonds starting fiscal year 2012.

Swap Payments and Associated Debt Service Payments. Using rates as of June 30, 2013, debt service requirements of the 2008 Series M bonds and net swap payments, assuming current interest rates remain the same for the term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Year Ending June 30,	Principal	Variable Interest (1)	Net Swap Interest (2)	Total Interest
2014	$ 4,300	$ 94	$ 3,689	$ 3,783
2015	4,450	90	3,532	3,622
2016	4,600	87	3,414	3,501
2017	4,700	84	3,296	3,380
2018	4,850	81	3,179	3,260
2019 - 2023	26,775	351	13,774	14,125
2024 - 2028	31,275	251	9,850	10,101
2029 - 2033	36,650	134	5,259	5,393
2034 - 2035	16,350	16	628	644
	$ 133,950	$ 1,188	$ 46,621	$ 47,809

(1) Variable interest on the 2008 Series M is estimated using interest rate at June 30, 2013, of 0.07%.

(2) Net swap interest on the 2008 Series M is estimated using USD-LIBOR-BBA rate at June 30, 2013, of 0.192%. Net swap interest at June 30, 2013, is calculated as follows: 3.185% minus (0.192% * 56.5% + 0.33%) equals to 2.747%.

Impact on Financial Statements. The impact of the interest rate swaps on the financial statements for the year ended June 30, 2013, is as follows:

	Deferred outflows of resources	Derivative instrument liabilities
Balance at July 1, 2012	$ 26,832	$ 26,832
Change in fair value	(9,825)	(9,825)
Balance at June 30, 2013	$ 17,007	$ 17,007

Derivative instrument liabilities of $17,007 as of June 30, 2013, represent the fair value of the interest rate swap agreements and deferred outflows on resources of $17,007 as of June 30, 2013, represent accumulated decreases in fair value of hedging derivatives.

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

2012 Series A Lease Revenue Bonds **-** On August 8, 2002, the Financing Authority issued $86,920 of 2012 Series A Lease Revenue Bonds on behalf of the County and SCVMC. The bonds were issued to provide funds to finance various public capital improvements and projects related to the Santa Clara Valley Health and Hospital System Enterprise Core Health Care Information System. The 2012 Series A Lease Revenue Bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of February 1, 2024.

Division of the Lease Revenue Bonds

The division of the lease revenue bonds between the governmental activities and the SCVMC is based on the usage of bond proceeds by the governmental activities and business-type activities (SCVMC) as follows:

Lease Revenue Bonds:	Governmental Activities	Business-type Activities
1985 ACES	15.9%	84.1%
1994 Series A and B	1.4%	98.6%
1997 Series A	9.4%	90.7%
2006 Series I	58.5%	41.5%
2007 Series K	24.2%	75.8%
2008 Series A	4.4%	95.6%
2008 Series L	53.0%	47.0%
2012 Series A	22.2%	77.8%

Airport

On July 1, 2003, the Association of Bay Area Governments (ABAG) issued Series 2002-1 Lease Revenue Bonds, in the amount of $13,370. These bonds were issued to finance or refinance certain capital improvements within their geographical boundaries. On June 4, 2002, the County Board approved a resolution to enter into a lease agreement with ABAG for $6,780 of this debt via a lease/leaseback arrangement of one or more properties to ABAG. The proceeds of the debt provided financing for the acquisition, construction, and renovation of certain capital improvements at the County’s airports.

(c) Repayment Requirements

As of June 30, 2013, the debt service requirements to maturity and the fund types from which principal payments will be made are as follows, excluding capital lease obligations, accrued litigation liability, insurance claims liabilities and accrued vacation and sick leave.

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

Governmental Activities

Fiscal year ending June 30:	Lease Revenue Bonds (1) Principal	Lease Revenue Bonds (1) Interest	Tobacco Securtization Asset-Backed Bonds Principal	Tobacco Securtization Asset-Backed Bonds Interest	Certificates of Participation Principal	Certificates of Participation Interest	Taxable Pension Funding Bonds Principal	Taxable Pension Funding Bonds Interest	General Obligation Bond Principal	General Obligation Bond Interest
2014	$ 26,965	$ 11,494	$ -	$ -	$ 180	$ 167	$ 3,576	$ 18,969	$ 1,100	$ 33,663
2015	15,351	10,584	-	-	190	160	3,976	19,479	5,520	35,460
2016	15,961	9,901	-	-	195	152	4,325	20,074	6,595	35,179
2017	16,437	9,158	-	-	205	144	4,647	20,727	7,740	34,847
2018	9,623	8,371	-	-	215	134	4,924	21,461	8,955	34,463
2019-2023	54,951	34,791	-	-	1,240	500	27,805	120,376	66,095	163,800
2024-2028	54,811	21,394	-	-	1,230	158	30,717	148,010	110,935	141,936
2029-2033	44,881	9,080	-	-	-	-	120,240	94,311	169,525	109,104
2034-2038	11,855	1,444	43,604	178,571	-	-	178,785	22,798	239,530	67,074
2039-2043	510	13	11,339	66,321	-	-	-	-	170,705	16,466
2044-2048	-	-	18,025	158,675	-	-	-	-	19,100	382
2049-2053	-	-	-	-	-	-	-	-	-	-
2054-2056	-	-	29,062	648,788	-	-	-	-	-	-
Total	$ 251,345	$ 116,230	$ 102,030	$ 1,052,355	$ 3,455	$ 1,415	$ 378,995	$ 486,205	$ 805,800	$ 672,374

(1) Variable interest on the 1985 ACES Lease Revenue Bonds, the 1994 Series B Lease Revenue Bonds, the 2004 Series A Lease Revenue Bonds, and the 2008 Series M Lease Revenue Bonds are estimated using interest rate at June 30, 2013, of 0.06%, 0.07%, 0.08%, and 0.07%, respectively.

Certificates of participations retirement and related interest payments are serviced by revenues generated by the Santa Clara County Vector Control District. Taxable Pension Funding Bonds are serviced by future charges to County departments. Capital Lease Obligations are serviced by Santa Clara County Central Fire Protection District and South Santa Clara County Fire District. Accrued litigation liability, insurance claims payable and accrued vacation and sick leave are generally liquidated by the General Fund.

Business-type Activities

Fiscal year ending June 30:	SCVMC Lease Revenue Bonds (1) Principal	SCVMC Lease Revenue Bonds (1) Interest	Airport Lease Revenue Bonds Principal	Airport Lease Revenue Bonds Interest
2014	$ 34,398	$ 17,356	$ 185	$ 231
2015	23,940	16,675	220	222
2016	24,977	15,772	155	213
2017	26,004	14,822	165	206
2018	27,154	13,803	170	198
2019-2023	155,524	51,483	1,000	853
2024-2028	119,771	30,104	1,270	570
2029-2033	85,249	21,544	1,620	210
2034-2037	66,810	5,769	-	-
Total	$ 563,827	$ 187,328	$ 4,785	$ 2,703

(1) Variable interest on the 1985 ACES Lease Revenue Bonds, the 1994 Series B Lease Revenue Bonds, and the 2008 Series M Lease Revenue Bonds are estimated using interest rate at June 30, 2013, of 0.06%, 0.07%, and 0.07%, respectively.

(9) Long-Term Liabilities (Continued)

(d) Pledged Revenues for Bonds

The lease revenue bonds issued by the Hospital Facilities Authority and the Financing Authority (Financing Authorities) are payable by a pledge of revenues from the base rental payments payable by the County, SCVMC, and the Housing Authority, pursuant to the Master Facility Lease Agreements between the County and the Financing Authorities and between the Housing Authority and the Financing Authority for the use of facilities acquired or constructed by the Financing Authorities. Under California law, the County, SCVMC, and the Housing Authority cannot make lease payments until the County, SCVMC, and the Housing Authority has constructive use or occupancy of the property being financed. Once construction is completed, the leases act like direct financing leases with lease payments equal to debt service payments. Total debt service requirements remaining on the lease revenue bonds is $1,118,730 payable through September 1, 2038. For the fiscal year ended June 30, 2013, the total lease payments made by the County, SCVMC, and the Housing Authority and total debt service payments paid by the Financing Authorities totaled to $70,004.

The County's Series 2007 Tobacco Settlement Asset-Backed Bonds are secured by the pledge of future tobacco settlement revenues made by participating cigarette manufacturers to the County. Tobacco settlement revenues due to the County on and after January 1, 2026 have been pledged until June 1, 2056, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $1,154,385. The County did not receive any tobacco settlement revenues for the bonds nor made any debt service payments on these bonds during the fiscal year ended June 30, 2013.

The County's Series 2009 General Obligation Bonds are payable from pledged ad valorem property taxes until August 1, 2039, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $629,875. For the fiscal year ended June 30, 2013, the County collected $16,826 in ad valorem property taxes and made total debt service payments in the amount of $16,671.

The County's Series 2013 General Obligation Bonds are payable from pledged ad valorem property taxes until August 1, 2043, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $848,299. The County did not receive any ad valorem property taxes for the bonds nor made any debt service payments on these bonds during the fiscal year ended June 30, 2013.

The Airport's lease revenue bonds are secured by the pledge of revenues generated by the Airport and paid to ABAG as lease payment. The leases act like direct financing leases with lease payments received by ABAG equal to debt service payments made by the Airport. These revenues have been pledged until July 1, 2032, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $7,488. For the fiscal year ended June 30, 2013, the total principal and interest payment made by the Airport totaled to $413.

(e) Legal Debt Margin

As of June 30, 2013, the County's legal debt limit (1.25% of the total assessed valuation) was $3.86 billion. At June 30, 2013, the County has debt in the amount of $805.8 million applicable to the limit outstanding and the legal debt margin was $3.05 billion.

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

(f) Arbitrage Rebate Payable

Section 148 of the Internal Revenue Code requires issuers of most types of tax-exempt bonds to rebate investment earnings in excess of bond yield to the federal government in installment payments made at least once every five years, with the final installment made when the last bond in the issue is redeemed.

A consulting firm calculates annual computation of all rebate requirements. Amounts in excess of allowable investment earnings are held pursuant to the Trust Indentures. At June 30, 2013, the County did not accrue amounts for arbitrage rebate payable in the government-wide statements – governmental activities, while $541 has been accrued in the government-wide statements – business-type activities and the SCVMC enterprise fund under the "Due to other governmental agencies" financial statement caption.

(g) Housing Authority Long-term Obligations

Outstanding notes, loans, and bonds payable for the Housing Authority consisted of the following:

Type of indebtedness (purpose)	Maturity	Interest Rates	Principal Installments	Original Issue Amount	Outstanding at June 30, 2013
Business-type activity - notes payable:					
Redevelopment Agency of the City of Morgan Hill	6/15/2021	1.00%	(1)	$ 425	$ 425
City of San Jose (Morrone Gardens)	9/23/2024	4.00%	(1)	973	973
Subtotal business-type activity				$ 1,398	1,398
Component units (as of December 31, 2012):					
AE Associates, Ltd.					4,653
Rincon Gardens Associates, L.P.					31,779
Julian Street Partners, L.P.					42,001
HACSC/Choices Senior Associates					11,427
HACSC/Choices Familiy Associates					16,002
Blossom River Associates					16,180
Thunderbird Associates					2,496
Bascom HACSC Associates					12,909
Opportunity Center Associates					10,700
Helzer Associates					22,120
Willow/HACSC Associates					4,676
Fairground Luxury Family Apartments, L.P.					40,601
Fairground Senior Apartments, L.P.					22,634
Morrone Gardens Associates					3,945
Huff Avenue Associates					4,587
S.P.G. Housing, Inc. and subsidiaries					10,929
Villa Garcia, Inc.					8,132
Villa San Pedro HDC, Inc.					5,649
					271,420
Component unit (as of May 31, 2013):					
Poco Way Associates					10,081
Subtotal component units					281,501
Total Housing Authority					$ 282,899

(1) Deferred until maturity

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

The debt service requirements to maturity for the Housing Authority's business-type activity's notes payable are as follows:

Fiscal year ending June 30:	Principal	Interest
2014	$ 20	$ 43
2015	-	43
2016	-	43
2017	-	43
2018	-	44
2019-2023	425	216
2024-2025	953	40
Total	$ 1,398	$ 472

A copy of each of the Housing Authority's component units separately issued audited financial statements can be obtained from the Housing Authority's management.

(10) Hospital Program Revenues

(a) Net Patient Service Revenue

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered at the SCVMC, including estimated adjustments under reimbursement agreements with third-party payers (contractual allowances) and the uncollectible portion of patient service revenues (bad debts provision).

Net patient service revenues are calculated for the fiscal year ended June 30, 2013, as follows:

Patient service revenues	$ 3,005,704
Contractual allowances	(2,089,291)
Bad debts provision	(61,164)
Net patient service revenues	$ 855,249

Differences between final settlements with third-party payors and the estimate originally recorded are included in operations in the year in which the settlement amounts become known.

A substantial portion of SCVMC's patient service revenues are derived from services provided to patients eligible for benefits under the Medi-Cal and Medicare programs. Revenue from the Medi-Cal and Medicare programs represents approximately 50% of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2013. Revenue from the Medicare program represents approximately 16% of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2013. Reimbursement for services provided under these programs is currently based on various contractual arrangements (see Note 14(c)).

(Dollars in thousands)

(10) Hospital Program Revenues (Continued)

(b) Other Program Revenues

Effective November 1, 2010, Centers for Medicare and Medicaid Services (CMS) and the State agreed on the standard terms and conditions of the 5 year renewal of the 1115 Medi-Cal waiver, officially called the California Bridge to Reform Demonstration. The funds available through the waiver will help California prepare for health care reform through investments in our safety net delivery system and expansion of coverage for adults between 0% and 200% of the Federal Poverty Level (FPL). The waiver establishes the Low Income Health Program (LIHP), which provides Federal matching funding for enrollees. The LIHP is the umbrella title for what is now a two component program:

1) Medicaid Coverage Expansion (MCE) covers adults with family incomes at or below 133% (FPL). These enrollees will be eligible for Medi-Cal in 2014 and the Federal matching funding is uncapped.
2) Health Care Coverage Initiative (HCCI) covers adults with family incomes between 134% and 200% FPL. These enrollees will be eligible for the State Exchange in 2014.

Effective November 1, 2010, the LIHP program is managed by the County and augments the California Medical Services Program (CMSP) for the medically indigent.

Additionally, as part of the renewed 1115 Waiver, CMS authorized California to invest savings generated through the Demonstration to achieve critical objectives, such as improved quality of care and better care coordination through safety net providers. Over 5 years, up to $6.6 billion in federal funds will be available from a delivery system reform incentive pool (DSRIP), part of a $15.3 billion safety net care pool. Many key concepts underlying federal health care reform will be tested, evaluated, and refined in California. As a result of participation in the DSRIP, SCVMC recognized other program revenues of $55,000 in fiscal year 2013.

(c) Charity Care

The SCVMC has a policy for providing charity care to patients who are otherwise unable to afford health care services. Generally, charity care recipients are those patients for which an indigency standard has been established and for which the patient qualifies. Inability to pay may be determined through an interview process by the SCVMC, by the Department of Revenue, or by an outside collection agency. Determination of charity care status may be made prior to or at the time of service, or any time thereafter.

The amount of such charity care provided by the SCVMC for the fiscal year ended June 30, 2013, based on the cost incurred to perform these services, is as follows:

Charity care, at cost	$	227,179
Percentage of operating expenses		24%

Charity care at cost is calculated excluding the impact of other revenues received listed above.

(11) Net Position/Fund Balances

(a) Net Position Classifications

The government-wide and proprietary funds financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted net position includes restrictions for parks, mental health, capital facilities, debt service, housing programs, roads and other purposes.

Unrestricted Net Position – This category represents net position of the County not restricted for any project or purpose.

During fiscal year 2007, the County, through the JPA and Corporation, issued $102,030 of Tobacco Settlement Asset-Backed Bonds. In addition, in fiscal years 2009 and 2013, the County issued $350,000 and $490,000, respectively, in general obligation bonds. Proceeds received were used for the purpose of rebuilding and improving the seismic deficiencies of its medical facilities and the restricted bond proceeds were deposited in the SCVMC fund. These restricted debt proceeds are reported as part of restricted net position in the County's business-type activities. However, the debt service will be paid with governmental revenues and as such these bonds are reported with unrestricted net position in the County's governmental activities. In accordance with GASB guidance, the County reclassified $493.4 million of the primary government's total net position amounts from restricted to unrestricted and $466.4 million from net investment in capital assets to unrestricted to reflect the primary government as a whole perspective.

(b) Fund Balances Classifications

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2013, fund balances for government funds are made up of the following:

Nonspendable Fund Balance – This category represents amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance – This category represents amounts that can be spent only for specific purposes stipulated by external parties, constitutionally or through enabling legislation.

Committed Fund Balance – This category represents amounts that can only be used for the specific purposes determined by a formal action of the County's highest level of decision-making authority. Commitments may be changed or lifted only by the County taking the same formal action that imposed the constraint originally. The Board is the County's highest level of decision making. The highest level of formal action to commit resources is the passage of ordinances.

(Dollars in thousands)

(11) Net Position/Fund Balances (Continued)

Assigned Fund Balance – This category represents amounts intended to be used by the County for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the Board, (b) standing committees of the Board; or (c) Director of Finance. Assignments are established by the Board through resolutions and delegation to the Director of Finance to set aside amounts to cover purchase orders, contracts, and other commitment for the expenditures of monies for budgetary purposes.

Unassigned Fund Balance – This category represents the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classification, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Fund balances for the governmental funds as of June 30, 2013, were distributed as follows:

	General Fund	Nonmajor Funds	Total
Nonspendable:			
Inventory	$ 1,615	$ 818	$ 2,433
Long-term receivable	-	1,028	1,028
Advance to other fund	676	-	676
Prepaid items	14,752	-	14,752
Subtotal	17,043	1,846	18,889
Restricted for:			
General government	44,263	10,803	55,066
Public protection	-	13,983	13,983
Public ways and facilities	-	55,550	55,550
Health and sanitation	-	122,791	122,791
Public assistance	-	18,442	18,442
Capital projects	-	103,594	103,594
Debt service	-	87,987	87,987
Education	-	28,019	28,019
Subtotal	44,263	441,169	485,432
Committed to:			
General government	18,083	821	18,904
Public protection	-	11,179	11,179
Public ways and facilities	943	591	1,534
Health and sanitation	-	16,903	16,903
Public assistance	-	1	1
Recreation	-	12,387	12,387
Capital projects	-	29,465	29,465
Subtotal	19,026	71,347	90,373
Assigned to:			
General government	16,005	-	16,005
Public protection	-	32,233	32,233
Subtotal	16,005	32,233	48,238
Unassigned	227,489	-	227,489
Total	$ 323,826	$ 546,595	$ 870,421

(11) Net Position/Fund Balances (Continued)

County's Contingency Reserve Policy. The Board adopted a contingency reserve policy that set the reserve at 5 percent of the General Fund's revenues, net of pass-through. The contingency reserve can be used to support costs on a one-time basis for unanticipated and unforeseen events as stated in the policy or to support ongoing costs as a financing mechanism, when presented with critical program initiatives that have a time requirement that cannot be deferred. As of June 30, 2013, the County has a balance in its contingency reserve in the amount of $107,294 reported as part of the General Fund's unassigned fund balance.

(12) Employee Benefit Plans

(a) California Public Employees' Retirement System – County

Plan Description

All eligible County employees participate in the State's Public Employees' Retirement System (PERS). The County participates in four plans with PERS. Two plans (Miscellaneous and Safety) cover the Santa Clara Central Fire District (Central Fire) and two plans (Miscellaneous and Safety) cover all remaining eligible County employees. PERS provides retirement, disability, and death benefits based on the employees' years of service, age and final compensation. The provisions and all other requirements are established by State statute and County resolutions. Copies of PERS' annual financial report may be obtained from their executive office at 400 Q Street, Sacramento, California 95811. A separate report for the County's plan in PERS is not available.

Effective with the June 30, 2003 valuation, PERS converted the Central Fire's Miscellaneous employees' defined benefit retirement plan from an agent multiple-employer to a cost sharing multiple-employer. The Central Fire's Miscellaneous employees' retirement plan is under the PERS Miscellaneous 2.7% at 55 Risk Pool. The County employees' plans (Miscellaneous and Safety) and the Central Fire Safety employees plan are agent multiple-employer defined benefit retirement plans. PERS acts as a common investment and administrative agent for various local and state governmental agencies within the state.

Public Employee' Pension Reform Act of 2013 (PEPRA) required that all state, school, and local government employers offer a reduced benefit formula and increased retirement ages to new public employees, who first became PERS members on or after January 1, 2013. The new defined benefit formula is 2% at age 62 for newly hired Miscellaneous employees and 2.7% at age 57 for newly hired Safety employees.

Funding Policy

The contribution requirements of plan members and the County are established and may be amended by PERS. The County is required to contribute at an actuarially determined rate or prepay a discounted annual required contribution between July 1 and July 15. The County also paid employees share of the required contribution in accordance to the governing memorandum of understanding.

(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Below is a summary of the employee contribution rates, employer contribution rates and employees share paid by the County for fiscal year 2012-2013:

County				
Plan		Employee Contribution Rate	Employer Contribution Rate	Employee's share paid by County
Classic	Miscellaneous	8.00%	15.749%	71.95%
	Safety	9.00%	26.354%	74.80%
New Member (PEPRA)	Miscellaneous	6.50%	15.749%	0.00%
	Safety	10.75%	26.354%	0.00%

Central Fire District				
Plan		Employee Contribution Rate	Employer Contribution Rate	Employee's share paid by Central Fire District
Classic	Miscellaneous	8.00%	23.508%	0.00%
	Safety	9.00%	31.681%	0.00%
New Member (PEPRA)	Miscellaneous	6.50%	6.700%	0.00%
	Safety	11.25%	31.681%	0.00%

Annual Pension Costs

The required contributions were determined as part of the June 30, 2010 actuarial valuations using a modification of the Entry Age Normal Cost Method. The actuarial assumptions include: (a) a rate of return on investments of 7.75%; (b) projected salary increases of 3.55% to 14.45% depending on age, service, and type of employment; (c) inflation of 3.00%; and (d) payroll growth of 3.25%. The actuarial value of the pension plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over 15 years. PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The average remaining amortization period as of June 30, 2010 is as follows:

	County	Central Fire
Miscellaneous Plan	23 years	19 years
Safety Plan	28 years	30 years

The County's changes in net pension asset for the year ended June 30, 2013, were as follows:

	County Miscellaneous	County Safety	Central Fire
Annual required contribution	$ 175,402	$ 47,052	$ 11,087
Interest on net pension asset	(21,369)	(7,396)	-
Amortization of net pension asset	18,420	6,376	-
Annual pension cost	172,453	46,032	11,087
Contributions made	(175,402)	(47,052)	(11,087)
Change in net pension asset	(2,949)	(1,020)	-
Net pension asset, beginning of year	(275,729)	(95,437)	-
Net pension asset, end of year	$ (278,678)	$ (96,457)	$ -

(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Three-year trend information for the County's Miscellaneous and Safety Plan are as follows:

	County Miscellaneous			County Safety		
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2013	$ 172,453	102%	$ (278,678)	$ 46,032	102%	$ (96,457)
6/30/2012	167,814	102%	(275,729)	46,170	103%	(95,437)
6/30/2011	164,650	102%	(272,372)	44,276	103%	(94,275)

Three-year trend information for the Central Fire's Miscellaneous and Safety Plans are as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2013	$ 11,087	100%	$ -
6/30/2012	11,324	100%	-
6/30/2011	9,806	100%	-

Funded Status and Funding Progress

The funding status and progress are determined as part of the June 30, 2012 (2011 for Central Fire) actuarial valuations (the most recent valuation available) using a modification of the Entry Age Normal Actuarial Cost Method. The actuarial assumptions include: (a) a rate of return on investments of 7.50%; (b) projected salary increases of 3.30% to 14.20% depending on age, service, and type of employment; (c) inflation of 2.75%; and (d) payroll growth of 3.00%. The actuarial value of the pension plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over 15 years. PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The average remaining amortization period as of June 30, 2012 (2011 for Central Fire) is as follows:

	County	Central Fire
Miscellaneous Plan	21 years	20 years
Safety Plan	26 years	32 years

Summary of funding progress are as follows:

	County Miscellaneous Plan	County Safety Plan	Central Fire Safety Plan
Actuarial valuation date	6/30/2012	6/30/2012	6/30/2011
Actuarial asset value	$ 6,069,267	$ 1,700,830	$ 330,808
Actuarial accrued liability - entry age	7,336,967	2,068,173	412,761
Unfunded actuarial accrued liability (UAAL)	$ 1,267,700	$ 367,343	$ 81,953
Funded ratio	82.7%	82.2%	80.1%
Covered payroll	$ 1,143,618	$ 182,063	$ 31,515
UAAL as percentage of covered payroll	110.9%	201.8%	260.0%

(12) Employee Benefit Plans (Continued)

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(b) County of Santa Clara Supplemental Benefit Plan - County

During the fiscal year 2009, the County established a defined contribution retirement plan (County of Santa Clara Supplemental Benefit Plan (Supplemental Plan)). County employees hired or accepted written job offers before July 1, 2008 and with compensation in excess of the Internal Revenue Code (IRC) section 401(a)(17) limitations are eligible to participate in the Supplemental Plan. The Supplemental Plan is a tax-deferred plan that is subject to an annual contribution limit under the IRC and any supplemental benefits in excess of the IRC limit will be paid to the employee as taxable income. The County will contribute and deposit the supplemental benefits into the Supplemental Plan at the end of January, following the close of the plan's calendar year. Employer contributions become fully vested at the time of the County's contribution. The Supplemental Plan, which had 113 participants, had ending cash value of $14,931 at June 30, 2013. During the fiscal year ended June 30, 2013, the County contributed $2,635 to the Supplemental Plan.

(c) Housing Authority of the County of Santa Clara Retirement Plan

Plan Description

In January 2009, the Housing Authority entered into a contract with PERS in order to participate in a PERS defined benefit pension plan (2% at age 55 Supplemental Formula with 100% Prior Service). All eligible Housing Authority employees participate in PERS, an agent multiple-employer defined benefit pension plan. PERS provides retirement, disability, and death benefits based on the employees' years of service, age and final compensation. Employees vest after five years of PERS-credited service and they are eligible for service retirement if they are 50 years old or over and have at least 5 years of PERS-credited service. These provisions and all other requirements are established by State statute and Authority resolutions. Copies of PERS' annual financial report may be obtained from their executive office: 400 Q Street, Sacramento, CA 95811.

Funding Policy

The contribution requirements of plan members and the Housing Authority are established and may be amended by PERS. Active plan members have an obligation to contribute a percentage of their annual covered salary to PERS. For classic employees (employees hired before January 1, 2013 or employees hired after January 1, 2013 and have been in the PERS system), the Housing Authority contributes the 7% employee portion on behalf of its employees since January 1, 2010. For new members (employees hired after January 1, 2013 and are new entrants to the PERS system), employees pay the 6.25% which is 50% of the total normal cost rate for the new benefit formula. The Housing Authority is required to contribute the actuarially determined remaining amounts necessary to fund the 2% at age 55 retirement plan benefits for its classic members and 2% at age 62 retirement plan benefits for its new members under PEPRA provisions. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS.

(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Annual Pension Cost

The Housing Authority's actual contribution rates were determined as part of the June 30, 2010 actuarial valuation. The June 30, 2010 actuarial valuation used the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.55% to 14.45% depending on age, service, and type of employment, (c) 3% per year inflation adjustment and (d) 3.25% payroll growth. CalPERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period as of June 30, 2010 is 11 years. The Housing Authority's required employer contribution for the year ended June 30, 2013 was 9.193% for all employees.

The Housing Authority's changes in net pension asset for the year ended June 30, 2013, were as follows:

Annual required contribution	$ 708
Interest on net pension asset	(1,378)
Amortization of net pension asset	2,568
Annual pension cost	1,898
Contributions made	708
Change in net pension asset	1,190
Net pension asset, beginning of year	(17,784)
Net pension asset, end of year	$ (16,594)

Three-year trend information for the Housing Authority is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2013	$ 1,898	37%	$ (16,594)
6/30/2012	894	311%	(17,784)
6/30/2011	1,550	195%	(15,896)

Funded Status and Funding Progress

The Housing Authority's June 30, 2011 actuarial valuation (the most recent valuation available) used the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.30% to 14.20% depending on age, service and type of employment, (c) overall payroll growth assumptions of 3.0%, and (d) 2.75% per year inflation adjustment. PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The average remaining amortization period as of June 30, 2013 is 8 years.

(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

The Housing Authority's summary of funding progress is as follows:

Actuarial valuation date		6/30/11
Actuarial asset value	$	37,178
Actuarial accrued liability - entry age		38,573
Unfunded actuarial accrued liability (UAAL)	$	1,395
Funded ratio		96.4%
Covered payroll	$	11,740
UAAL as percentage of covered payroll		11.9%

(d) FIRST 5 Santa Clara County IRC 401(a) Plan

In November 2001, FIRST 5's board approved the implementation of an Internal Revenue Code (IRC) Section 401(a) retirement plan (the Plan) effective January 1, 2002 for all FIRST 5 employees. The Plan is a defined contribution plan administered by the Unified Trust Company. The Plan is open to all employees, excluding temporary employees who work less than 20 hours per week. Currently, 34 employees are enrolled in the Plan. The Plan provides retirement benefits based on the employee's salary and years of service.

Effective January 1, 2008, the Plan had three different types of employer contributions which vest 100% after three years of employment service. The Plan requires employer contributions of 7% of employees' annual salaries and wages. The employer's contributions under this requirement were $200 for the year ended June 30, 2013. Additional supplemental contributions may be made by the employer based on a compensation arrangement between employee and the employer. The contribution requirements of Plan members and First 5 are established by and may be amended by the Unified Trust Company.

(e) Santa Clara County Health Authority Retirement Plans

Defined Contribution Plan

The Health Authority has a defined contribution plan under Sections 401(a) of the Internal Revenue Code. Under the 401(a) Plan, participants must contribute 6% of their gross compensation and the Health Authority must contribute 3% of the participants' gross compensation. The Health Authority contributes greater than 3% of gross compensation for senior staff level employees. In return, senior staff level employees contribute less than 6% of their gross compensation. Contributions by the Health Authority totaled $273 for the year ended June 30, 2013.

Defined Benefit Retirement Plan Description

In April 1999, the Health Authority began participation in the PERS cost sharing multiple employer plan. The Health Authority belongs to the Miscellaneous 2% at 55 Risk Pool. These provisions and all other requirements are established by state statute. Copies of PERS' annual financial report may be obtained from their executive office: 400 Q Street, Sacramento, CA 95811.

(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Funding Policy

Participating employees are required to contribute 7% of their monthly salaries to PERS. The Health Authority is required to contribute an actuarially determined rate. The employer contribution rate was 9.716% of annual covered payroll for the year ended June 30, 2013. The contribution requirements of the plan members and the Health Authority are established and may be amended by PERS.

Annual Pension Cost

The Health Authority's annual pension cost for PERS was equal to its required and actual contributions, which were determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method.

Three-year trend information for the Health Authority is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2013	$ 961	100%	$ -
6/30/2012	1,143	100%	-
6/30/2011	1,085	100%	-

(f) Postemployment Health Care Benefits – County

Plan Description

The County maintains a cost-sharing multiple-employer defined benefit postemployment healthcare plan (OPEB Plan), which covers substantially all (excluding Central Fire, Housing Authority and Health Authority) of its employees and certain employees of the Superior Court. Due to the relative insignificance of the other employer in the OPEB Plan, the County presents disclosure information for the OPEB Plan as if it were a single-employer plan. The County's OPEB Plan provides healthcare benefits to eligible County (excluding Central Fire, Housing Authority and Health Authority) employees and their surviving spouses. Central Fire, Housing Authority and Health Authority employees have separate defined benefit postemployment healthcare plans. All County employees hired prior to August 12, 1996, with at least five years of service after attaining age 50 are covered under the County's OPEB Plan upon retirement. For employees hired after August 12, 1996 and on or before June 18, 2006, the eligibility requirements were increased to a minimum of eight years of service after attaining age 50. For employees hired after June 19, 2006, the eligibility requirements were increased to a minimum of ten years of service after attaining age 50. For all of the above, employees must retire from PERS directly from the County.

The County, Central Fire, Housing Authority and Health Authority participate in the California Employers' Retiree Benefit Trust Fund Program (CERBT), an agent multiple-employer postemployment health plan, to fund other postemployment benefits through PERS. Copies of PERS' annual financial report may be obtained from their executive office at 400 Q Street, Sacramento, California 95811. A separate report for the County's plan in CERBT is not available.

(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Funding Policy

In the June 30, 2013 and 2012 actuarial valuations, due to budgetary constraints, the County planned to fund the normal cost for one year of service accrual earned by the active employees plus the implicit subsidy. For future years, the County has adopted an ordinance that incrementally increases the OPEB contributions with the goal of paying 100% of the Annual Required Contribution (ARC) by fiscal year 2018. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC rate for the fiscal year 2013 calculated in the June 30, 2012 actuarial valuation is 13.23% of annual covered payroll.

The contribution requirements of plan members and the County are established and may be amended by the Board. Due to budgetary constraints, the County contributed less than 100% of its required contribution and contributed $99,735 of the annual OPEB cost of $175,061. Of the total amount contributed in fiscal year 2013, the County made a deposit into the CERBT of $33,277 and contributed $66,458 towards benefit costs.

Annual required contribution	$ 172,965
Interest on net OPEB obligation	13,623
Adjustment to annual required contribution	(11,527)
Annual OPEB cost	175,061
Contributions made	(99,735)
Change in net OPEB obligation	75,326
Net OPEB obligation, beginning of year	208,161
Net OPEB obligation, end of year	$ 283,487

Annual OPEB Cost

The required contributions were determined as part of the June 30, 2012 actuarial valuation. Three-year trend information for the County (excluding Central Fire, Housing Authority and Health Authority) is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	$ 175,061	57.0%	$ 283,487
6/30/2012	163,527	46.0%	208,161
6/30/2011	141,213	42.2%	119,809

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of certain events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

The significant actuarial methods and assumptions used to compute the actuarially determined OPEB annual required contributions and the funded status are as follows:

Description	Method/Assumption	Method/Assumption
Valuation date	June 30, 2012	June 30, 2013
Actuarial cost method	Entry age normal; Level percent of salary	Entry age normal; Level percent of salary
Amortization method for actuarial accrued liabilities	30 years, open, level percent of payroll	30 years, open, level percent of payroll
Remaining amortization period	30 years as of June 30, 2012	30 years as of June 30, 2013
Actuarial asset valuation method	Market value	Market value
Investment rate of return	6.55% *	6.74% *
Price inflation	3.00%	2.75%
Wage inflation	3.25%	3.00%
Projected payroll increases	Increase of 3.65% to 13.15% depending on age, service and type of employment.	Increase of 3.40% to 12.90% depending on age, service and type of employment.
Healthcare cost trend rate:		
Medical	8.50% for 2012-13, then graded down by 0.5% annually to an ultimate rate of 5.0% by year 2019-20.	8.00% before reflecting additional PPACA fees of 2% for Kaiser and Valley Health Plan, additional 2.47% for Health Net aplied to 2013-14 plan year premiums to calculate 2014-15 plan year premiums, then 7.5% and graded down by 0.5% per year until 5.0% ultimate rate is reached.

* Determined as a blended rate of the expected long-term investment returns on plan assets and on the County's investments, based on the funded level of the plan at the valuation date. The discount rate used is a blended rate based on the expected return for assets invested with CERBT of 7.36% and 7.61% for valuations at June 30, 2013 and 2012, respectively and the expected return on the County's investments of 5.30% and 5.60% for valuations at June 30, 2013 and 2012, respectively. The expected return on the County's investments were developed by the County using a weighted average of the 15-year historical returns from the County's Retiree Healthcare Plan (80%), County's Commingled Pool (10%) and the 30-year historical returns from 30-year Treasury Bonds (10%).

Funding Status and Funding Progress

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided as the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used for all County's OPEB plans include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

As of June 30, 2013, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	$	2,204,484
Actuarial value of plan assets		329,185
Unfunded actuarial accrued liability (UAAL)	$	1,875,299
Funded ratio (actuarial value of plan assests/AAL)		14.9%
Covered payroll (active plan members)	$	1,401,851
UAAL as a percentage of covered payroll		133.8%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(g) Postemployment Health Care Benefits – Santa Clara County Central Fire Protection District

Plan Description

The Central Fire maintains a separate OPEB plan from the County. Under this plan, Central Fire provides for lifetime medical coverage to retirees who meet eligibility requirements. Currently, employees who retire directly from the Central Fire, have accrued seven years of service and were hired between January l, 1995 and December 31, 2006, inclusive, or retire directly from the Central Fire, have accrued 10 years of service and were hired after December 31, 2006 are eligible. The Central Fire also provides lifetime medical insurance to retirees and his/her spouse if the retiree retired on or before January l, 1978. The Central Fire will pay for the spouse’s coverage so long as the retiree maintains eligibility. An employee who retires after January 1, 1978 may include his/her dependent on the plan at the retiree's cost.

Funding Policy and Annual OPEB Cost

Central Fire began prefunding with the CERBT in 2011/2012. The Central Fire’s annual required contribution for the year 2012-13 is determined based on the June 30, 2011 actuarial valuation. The table below summarizes the position of the Central Fire’s OPEB plan for the fiscal year ended June 30, 2013.

Annual required contribution	$	6,105
Interest on beginning net OPEB obligation		2,449
Amortization of net OPEB obligation		(2,023)
Annual OPEB cost		6,531
Contributions made		(3,291)
Change in net OPEB obligation		3,240
Net OPEB obligation, beginning of year		34,982
Net OPEB obligation, end of year	$	38,222

(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

The following table represents annual OPEB cost for the past three years, the percentage of annual OPEB cost contributed, and net OPEB obligations:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	$ 6,531	50%	$ 38,222
6/30/2012	8,060	95%	34,982
6/30/2011	14,216	21%	34,571

Actuarial Methods and Assumptions

As discussed earlier, projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided as the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

The actuarial cost method used in the Central Fire’s June 30, 2011 actuarial valuation was the modified Projected Unit Credit actuarial cost method. The actuarial assumptions included an annual discount rate of a 7.00%, annual compensation increase of 3.00%, and medical/drug cost trends begin at various levels that graded down each year until an ultimate rate of 4.50% by year 2012-22. Since the Central District just started funding into CERBT, Central Fire did not have any assets as of June 30, 2011. For Central Fire’s calculation of annual required contribution, the unfunded actuarial accrued liability was amortized as a level percent of pay over a static 30-year period beginning in 2011/2012.

Funding Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	$ 84,335
Actuarial value of plan assets	7,296
Unfunded actuarial accrued liability (UAAL)	$ 77,039
Funded ratio (actuarial value of plan assets/AAL)	9%
Annual covered payroll	$ 37,233
UAAL as a percentage of annual covered payroll	207%

(12) Employee Benefit Plans (Continued)

The actuarial cost method used in the Central Fire's June 30, 2013 actuarial valuation was the modified Projected Unit Credit actuarial cost method. The actuarial assumptions included an annual discount rate of a 7.00%, annual compensation increase of 3.00%, and medical/drug costs were based on combined active and retiree experience for the 36 months ending October 2012 with annual per-capital costs trended to 2013-14, adjusted from paid to incurred and then combining by taking a weighted average. For Central Fire's calculation of annual required contribution, the unfunded actuarial accrued liability was amortized as a level percent of pay over a static 30-year period beginning in 2011/2012.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Details of the Central Fire's OPEB plan may be found in its financial report for the fiscal year ended June 30, 2013. The report may be obtained by writing to the Santa Clara County Central Fire Protection District at 14700 Winchester Boulevard, Los Gatos, California, 95032.

(h) Postemployment Health Care Benefits – Housing Authority

Plan Description

The Housing Authority maintains a separate OPEB plan. The Housing Authority provides eligible employees with post-retirement medical healthcare benefits. Upon retirement, qualified employees and spouses/domestic partners are eligible for continued medical coverage up to the Employer Coverage Cap in effect on the date of the employee's retirement. Medical provider at the time of retirement will be the same medical provider during the final year of employment unless the employee moves from the plan service area. In the event the employee moves out of the plan service area, a supplemental medical plan will be made available at that time. Participation in Part A and Part B of the Medicare plan available at the time of retirement is a requirement of the plan. The surviving spouse or domestic partner may continue to purchase medical coverage after the death of the retiree at the surviving spouse/partner's expense.

Funding Policy

The contribution requirements of plan members and the Housing Authority are established and may be amended by the Board. The Housing Authority contributes the amounts necessary to fund the annual required contribution.

Annual OPEB Cost and Actuarial Methods and Assumptions

For the year ended June 30, 2013, the Housing Authority's annual OPEB cost equals to its ARC and based on the Housing Authority's most recent OPEB actuarial valuation that was performed as of July 1, 2011. In the Housing Authority's July 1, 2011 actuarial valuation, the entry age normal cost method was used. Under this method, the actuarial present value of the projected health benefits of

(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

each individual included in the valuation is allocated as a level percent of expected salary for each year of employment between entry age (age of hire) and assumed exit (maximum retirement age). The actuarial assumptions included a 6.39% investment rate of return and an annual healthcare cost trend rate of 9.0% for 2012, reduced by decrements to an ultimate rate of 4.5% in year 2019 and beyond. The actuarial assumptions also include a 3.25% salary increase. The actuarial value of assets was determined using the market value of the assets. The Housing Authority's unfunded actuarial accrued liability is being amortized over one year on a closed basis.

Three-year trend information for the Housing Authority's OPEB plan is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	$ 186	100.0%	$ -
6/30/2012	192	100.0%	-
6/30/2011	284	100.0%	-

Funding Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	$ 7,189
Actuarial value of plan assets	6,976
Unfunded actuarial accrued liability (UAAL)	$ 213
Funded ratio (actuarial value of plan assets/AAL)	97.0%
Annual covered payroll	$ 11,845
UAAL as a percentage of annual covered payroll	1.8%

Details of the Housing Authority's OPEB plan may be found in its financial report for the fiscal year ended June 30, 2013. The report may be obtained by writing to the Housing Authority at 505 W. Julian Street, San Jose, CA 95110.

(i) Postemployment Health Care Benefits – Health Authority

Plan Description

The Health Authority also maintains a separate OPEB plan. The Health Authority must contribute the minimum required amount of $5 or the ARC, whichever is lower. Retired employees who retire directly from the health plan are eligible to receive contributions from Santa Clara Family Health Plan toward their monthly Public Employees' Medical and Hospital Care Act if they meet certain age and service eligibility requirements outlined in the plan document, as approved by the Board of Directors of the Health Authority. All employees who attain age 50 with a minimum of 5 years of PERS service and employed by the Health Authority at the time of retirement are eligible. Retirees are required to fund 10% of the cost of their monthly premiums.

(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Annual OPEB Cost and Actuarial Methods and Assumptions

For the year ended June 30, 2013, the Health Authority's annual OPEB cost equals to its ARC and based on the Health Authority's most recent OPEB actuarial valuation that was performed as of June 30, 2013. The actuarial cost method for determining the benefit obligation is the projected unit credit cost method. In the June 30, 2013 actuarial valuation, the assumed health care cost trend rates was 7.00% for 2014, graded to 4.5% for 2083 and beyond and the discount rate was 7.00%. The Health Authority's unfunded actuarial accrued liability is being amortized over 30 years.

Three-year trend information for the Health Authority's OPEB plan is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	$ 683	100.0%	$ -
6/30/2012	653	100.0%	-
6/30/2011	675	100.0%	-

Funding Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 46.0% funded. The actuarial accrued liability for benefits was $6,705 and the actuarial value of assets was $3,085, resulting in an unfunded actuarial liability of $3,620.

Details of the Health Authority's OPEB plan may be found in its financial report for the fiscal year ended June 30, 2013. The report may be obtained by writing to the Health Authority at 210 E. Hacienda Avenue, Campbell, CA 95008.

(13) Risk Management

The County is exposed to various risks of loss related to torts; medical malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; and health benefits to employees and retirees. The County is self-insured for its general liability, workers' compensation, unemployment, basic life insurance, dental, retiree benefits, medical malpractice liability, and automobile liability. The County has chosen to establish risk financing internal service funds where assets are set aside for claim settlements associated with the above risks of loss up to certain limits.

Excess coverage is provided by the California State Association of Counties' Excess Insurance Authority (Insurance Authority), a joint powers authority, whose purpose is to develop and fund programs of excess insurance and provide the joint purchase of coverage from independent third parties for its member entities for the following types of coverage listed below. The Insurance Authority is governed by a Board of Directors consisting of representatives of its member entities.

(Dollars in thousands)

(13) Risk Management (Continued)

Self-insurance and Insurance Authority limits are as follows:

Type of Coverage	Self-Insurance (per occurrence)	Self-Retained [(1)]	Purchase Insurance Policies (per occurrence)
Automobile	Up to $2,000	$0	$33,000
General Liability	Up to $2,000	$0	$33,000
Medical Malpractice	Up to $500	$1,500 per occurrence	$20,000 $50,000 annual aggregate
Workers' Compensation	Up to $4,000	$1,000 per occurrence	Statutory
Property Damage	Up to $50 [(2)] (This is deductible)	$3,000 per occurrence $10,000 annual aggregate	Up to $1,800,000 [(3)]
Earthquake	5% of property value $100 minimum deductible		Up to $487,500 [(4)]
Airport	None		$30,000
Crime Bond	Up to $25		$15,000
Pollution	Up to $250		$10,000

(1) The self-retained layer is required by the insurance company and acts as an additional amount to pay claims before a loss is paid by the insurance company. This self-retained layer is contributed by the member entities and remains their assets. Once the self-retained layer is exhausted, the insurance company pays all claims above the County’s self-insurance amount. Any funds left in the self-retained layer can be used to fund self-retained amounts in future years.

(2) Deductible for the Fairgrounds is $5 per occurrence. All properties are insured at full replacement value.

(3) Insured values are split between 3 schedules with limits of $600,000 each for a total of $1,800,000.

(4) Insured values are split between 3 schedules with limits of $80,000 per tower shared with all other members in towers II, III and IV, plus a rooftop of $247,500 shared with all member in towers I, II, III, IV and V for a total of $487,500.

There have been no settlement amounts exceeding commercial or Insurance Authority insurance coverage since self-insurance was introduced in 1978. It is the County’s practice to obtain full actuarial studies annually for the self-insured automobile liability, general liability, medical malpractice, and workers’ compensation liability issues. The unpaid claims liabilities included in the self-insurance internal service funds for these risks are based on the results of actuarial studies and include amounts for claims incurred but not reported and loss adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

The County computes its claims liability based on the expected value discounted at 3.0% for General and Automobile Liability claims, 4.5% for Malpractice claims and 5.0% for Workers’ Compensation claims. Changes in the balances of claims liabilities during the past two fiscal years ended June 30 for the County’s self-insurance internal service funds are as follows:

	2013	2012
Unpaid claims, beginning of year	$ 116,721	$ 115,323
Incurred claims and changes in estimate	57,550	58,201
Claim payments	(56,339)	(56,803)
Unpaid claims, end of year	$ 117,932	$ 116,721

Annual premiums are charged by each self-insurance fund using various allocation methods that include actual costs, trends in claims experience, and number of participants. Premiums paid by the self-insurance internal service funds totaled $12,988 for the fiscal year ended June 30, 2013.

(Dollars in thousands)

(14) Commitments and Contingencies

(a) Commitments

The County has various non-cancelable operating leases as lessees primarily for office space and equipment (accounted for principally in the General Fund). Approximate future minimum operating lease commitments are as follows:

Fiscal year ending June 30,	Governmental Activities	Business-type Activities	Total
2014	$ 32,766	$ 5,210	$ 37,976
2015	32,665	5,334	37,999
2016	33,162	5,461	38,623
2017	34,533	5,592	40,124
2018	35,164	5,726	40,890
2019-2023	186,782	30,789	217,571
2024-2028	206,807	34,783	241,590
2029-2033	229,700	39,383	269,083
Total	$ 791,579	$ 132,278	$ 923,856

Rent expense for fiscal year 2013 was approximately $41,141 and $7,679 for the governmental activities and business-type activities, respectively.

The County has entered into operating leases as lessor on various properties with businesses and other governmental agencies (accounted for principally in the General Fund). The future minimum payments to be received are as follows:

Fiscal year ending June 30,	Governmental Activities	Business-type Activities	Total
2014	$ 3,758	$ 460	$ 4,219
2015	3,677	96	3,773
2016	3,786	98	3,884
2017	3,890	100	3,990
2018	3,992	102	4,094
2019-2023	20,831	406	21,237
2024-2028	30,173	-	30,173
2029-2033	31,713	-	31,713
Total	$ 101,820	$ 1,263	$ 103,083

At June 30, 2013, the leased assets had a net book value of $18,363. Rent income for fiscal year 2013 was approximately $7,114 and $2,804 for the governmental activities and business-type activities, respectively.

The County has entered into various service concession arrangements with governmental and nongovernmental entities (operators) to provide services to the public. Rental incomes received from these service concessions arrangements are included in the above table.

(14) Commitments and Contingencies (Continued)

As part of service concession arrangements, County facilities were conveyed to the operators to provide services related to the primary function of the facility. The operators agreed to operate and maintain the County's facilities and collect the related fees during the term of the agreements. The operators agreed to pay the County a certain percentage of revenues they collected and/or pay installment payments to the County. Some operators also agreed to construct new facilities or improve existing facilities. The County reported the new facilities or the improvements as capital assets at fair value when it is placed in operations.

The County has no contractual obligation related to the facilities or obligations related to the maintenance of a minimum level of the service in connection with the operations of the facilities. In accordance with GASB Statement No. 60, the County recognized the present value of the future installment payments as a receivable, the fair value of newly constructed facilities or improvements as capital assets, and offset the balances with deferred inflows of resources. The capital assets are depreciated using the straight-line method based on the useful lives in accordance with the County's capital asset policy. Revenues are recognized over the term of the arrangements. At July 1, 2012, the governmental activities reported service concession arrangement receivables of $8,729, fair value of capital assets of $7,726 and offset the balances with deferred inflows of resources of $16,455. The County did not enter into new service concessions arrangement during the year ended June 30, 2013. At June 30, 2013, the governmental activities reported total deferred inflows of resources for the service concession arrangements of $15,236, of which $7,983 is related to the receivables and $7,253 is related to the capital assets.

(b) Litigation

The County accounts for claims in the internal service funds and the General Fund. As of June 30, 2013, the County had accrued amounts which management believes are adequate to provide for claims and litigation, which arose during the normal course of activities. There are other outstanding claims and litigation for which County management believes the ultimate outcome of these claims and litigation will not significantly impact the County's financial position.

(c) Patient Service Revenue and Receivables

The SCVMC grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, or investigations.

(Dollars in thousands)

(14) Commitments and Contingencies (Continued)

Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The SCVMC's Medicare and Medi-Cal cost reports have been audited by the fiscal intermediary through June 30, 2009. As such, the cost reports for certain other prior years are in various stages of review by third-party intermediaries and have not been settled as a result of certain unresolved reimbursement issues. The County believes it has adequately provided for any potential liabilities that may arise from the intermediaries' audits.

Net receivables from patients and third-party payers at June 30, 2013, are summarized as follows:

Medicare	$	22,725
Medi-Cal		36,422
Insurance and other third-party payers		34,249
Private patients		3,109
Total	$	96,505

(d) Seismic Safety Building Standards

The County is affected by State of California Senate Bill 1953 (SB 1953), which requires certain seismic safety building standards for acute care hospital facilities. SCVMC has reviewed the SB 1953 compliance requirements and developed multiple plans of action to achieve such compliance, the estimated time frame for complying with such requirements, and the cost of performing necessary remediation of certain of the properties. SCVMC estimates the total remediation cost to make its facilities SB 1953-compliant will be approximately $1.4 billion. Costs incurred through June 30, 2013 were $484.7 million.

In fiscal year 2007 the County sold its right to a portion of its tobacco settlement revenues. The sale consisted primarily of tobacco settlement revenues due to the County on and after January 1, 2026. The proceeds from the sale, net of issuance cost, in the amount of $100,000 were transferred to the SCVMC and are restricted to meeting the seismic requirements of SB 1953.

In fiscal year 2009, after authorization at an election of the County voters on November 4, 2008, the County issued General Obligation Bonds Series 2009 A and 2013 B in May 2009 and March 2013, respectively. The proceeds from the sale in the amount of $350,000 and $490,000 for Series 2009 A and 2013 B, respectively, were transferred to the SCVMC and are restricted to meeting the seismic requirements of SB 1953.

(14) Commitments and Contingencies (Continued)

(e) Conduit Debt - Single and Multiple Family Mortgage Revenue Bonds

The County, acting as coordinator with certain cities, issued Tax-Exempt Mortgage Revenue Bonds with periodic maturities through May 2040. At June 30, 2013, the outstanding balance of these bonds was $25,487. Single family mortgage revenue bonds were issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing residences. The purpose of this program is to provide below market interest rate home mortgages to persons who are unable to qualify for conventional mortgages at market rates. Multiple family mortgage revenue bonds were issued to provide financing to developers of specified multiple family housing projects. These developers agree to rent a percentage of units to qualified families at below market rates. The bonds are not considered obligations of the County and are payable solely from payments made on the related secured mortgage loans.

(f) Conduit Debt - Insured Revenue Bonds

On March 16, 2007, the Financing Authority served as the conduit issuer of the 2007 Insured Revenue Bonds Series A ($50,000), Series B ($50,000), and Series C ($50,000) (collectively, “2007 Insured Revenue Bonds”) in order to provide funds for the construction, renovation, and improvement of the El Camino Hospital, a nonprofit public corporation. These bonds were issued to fund a portion of the construction of a new five-level main hospital building and purchasing and installing equipment (El Camino Hospital Project).

On May 15, 2008, the 2007 Insured Revenue Bonds were mandatory tendered at which time Series A ($49,175), Series B ($49,175), and Series C ($49,175) (collectively, “2007 Remarketed Insured Revenue Bonds”) were remarketed as fixed interest rate bonds. The 2007 Remarketed Insured Revenue Bonds bear fixed interest rates ranging from 4.00% to 5.75%, and have a final maturity date of February 1, 2041. At June 30, 2013, the total outstanding balances of these conduit bonds were $134,100.

On March 30, 2009, the Financing Authority served as the conduit issuer of the 2009 Variable Rate Revenue Bonds (2009 Bonds) in the amount of $50,000 in order to provide funds for the El Camino Hospital Project. The 2009 Bonds bear variable interest rate based on Weekly Interest Rate as defined in the bond indenture. The 2009 Bonds have a final maturity date of February 1, 2044. At June 30, 2013, the total outstanding balance for the 2009 Bonds was $50,000.

The Financing Authority and the County have no obligation for these bonds as the bonds are secured under the provisions of the Indenture and will be payable solely from payments made by the El Camino Hospital under the Loan Agreements. These bonds are not payable from any revenues or assets of the County. Neither the faith and credit nor the taxing power of the County, the State or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds.

(14) Commitments and Contingencies (Continued)

(g) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed by the County as an extension of formal budgetary accounting in the General Fund, Special Revenue Funds, and Capital Projects Funds. Encumbrances still open at year end are not accounted for as expenditures and liabilities but as part of assigned fund balance. At June 30, 2013, encumbrances totaled to $12,114, $21,155, and $33,907 for the General Fund, Special Revenue Funds, and Capital Projects Funds, respectively**.**

(15) Pollution Remediation

The Almaden Quicksilver County Park (Park) was established in the mid-1970s after the purchase of various properties in the Almaden foothills. From the mid 1800's to 1975, numerous companies that owned these properties extracted mercury from portions of these properties. One of the by-products of the mercury extraction process is a material called calcines. Calcines have been deposited in various areas in the Park and are considered by several regulatory agencies to be a source of mercury contamination in the watershed.

In 1987, the State Department of Toxic Substance Control issued a Remedial Action Order and required the Parks Department to remove calcine piles and re-work calcine and sediments containing mercury to allowable levels for human exposure. This work was completed by 2000. However, later in the year, the United States Department of Interior and California State Department of Fish and Game advised the County and Santa Clara Valley Water District that it intended to bring forth a Natural Resource Damage Assessment against both parties, as well as other potential responsible parties, for assessing damages for injuries to fish and bird life resulting from mercury contamination in Guadalupe River watershed. In 2005, these parties executed a Consent Decree that outlined specific obligations, including a calcines removal project at the Park. At this point in time, one of the projects concerning Jacques Gulch was completed but the second one for the Hacienda Deep Gulch cleanup is in the design and permitting stage and will not be done until 2015.

In November 2009, the State Water Resources Control Board approved a Basin Plan Amendment for the Guadalupe River Watershed, which established a total maximum daily load (TMDL) for mercury mine wash and sediment and included an implementation plan to reduce mercury in the waters of the Guadalupe River watershed. In June 2009, the County received a §13267 order from Regional Water Quality Control Board (RWQCB) to conduct a site investigation by December 2010 and evaluate the erosion potential of mercury mining waste and the potential for seeps to discharge mercury from mining waste to surface waters. In November 2009, the RWQCB issued a second §13267 order requiring that the County develop and participate in a coordinated watershed monitoring plan.

The County concluded the required evaluation for erosion potential of mercury mining waste. As of June 30, 2013, it estimates that $5,900 will be spent during the next five years to repair remediate damaged areas. Further repair costs may be necessary, but such amounts cannot be estimated nor has funding been identified at this time.

(16) Subsequent Events

Tax and Revenue Anticipation Notes – On September 4, 2013, the County issued Tax and Revenue Anticipation Notes (TRANS) in the amount of $118,000. The purpose of the issue is to help the County meet its short term cash flow requirements. The proceeds will be used by the County for any purpose for which the County is authorized to expend funds from the General Fund. The maturity date of the TRANS is June 30, 2014 and they bear interest at 1.25% per annum.

Teeter Financing - On September 11, 2013, the County paid off the Teeter notes in the amount of $85,000 and discontinued the Teeter financing program.

Santa Clara County-El Camino Hospital District Hospital Facilities Authority – On August 1, 2013, the Hospital Facilities Authority paid off the outstanding 1985 Series A and B Adjustable Convertible Extendable Securities Lease Revenue Bonds. On November 18, 2013, the Hospital Facilities Authority's Board of Directors approved the dissolution of this entity.

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Required Supplementary Information

Required Supplementary Information (Unaudited)
Schedules of Funding Progress
June 30, 2013
(Dollars in thousands)

Schedule of Funding Progress – PERS Defined Benefit Pension - County Miscellaneous Plan:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2012	$ 6,069,267	$ 7,336,967	$ 1,267,700	82.7%	$ 1,143,618	110.9%
6/30/2011	5,741,951	6,930,682	1,188,731	82.8%	1,152,298	103.2%
6/30/2010	5,372,720	6,532,024	1,159,304	82.3%	1,170,799	99.0%

Schedule of Funding Progress – PERS Defined Benefit Pension - County Safety Plan:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2012	$ 1,700,830	$ 2,068,173	$ 367,343	82.2%	$ 182,063	201.8%
6/30/2011	1,635,628	1,991,108	355,480	82.1%	197,330	180.1%
6/30/2010	1,539,938	1,836,470	296,532	83.9%	196,504	150.9%

Schedule of Funding Progress – PERS Defined Benefit Pension - Central Fire Safety Plan:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2011	$ 330,808	$ 412,761	$ 81,953	80.1%	$ 31,515	260.0%
6/30/2010	314,505	393,045	78,540	80.0%	32,467	241.9%
6/30/2009	300,245	372,860	72,615	80.5%	30,871	235.2%

Schedule of Funding Progress – PERS Defined Benefit Pension - Housing Authority:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)_	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2011	$ 37,178	$ 38,573	$ 1,395	96.4%	$ 11,740	11.9%
6/30/2010	31,452	35,087	3,635	89.6%	13,363	27.2%
6/30/2009	13,317	29,305	15,988	45.4%	12,875	124.2%

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedules of Funding Progress
June 30, 2013
(Dollars in thousands)

Schedule of Funding Progress – County Other Postemployment Benefits:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2013	$ 329,185	$ 2,204,484	$ 1,875,299	14.9%	$ 1,401,851	133.8%
6/30/2012	264,139	2,121,600	1,857,462	12.4%	1,291,545 *	143.8%
6/30/2011	251,789	2,035,456	1,783,667	12.4%	1,328,612	134.3%

* Based on updated cover payroll for 2012-13 fiscal year.

Schedule of Funding Progress – Santa Clara County Central Fire Protection District Other Postemployment Benefits:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2013	$ 7,296	$ 84,335	$ 77,039	9.0%	$ 37,233	207.0%
6/30/2011	-	76,556	76,556	0.0%	36,847	207.8%
6/30/2010	-	176,569	176,569	0.0%	38,956	453.3%

Schedule of Funding Progress – Housing Authority of the County of Santa Clara Other Postemployment Benefits:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
7/1/2011	$ 6,976	$ 7,189	$ 213	97.0%	$ 11,845	1.8%
7/1/2009	-	5,124	5,124	0.0%	13,201	38.8%
6/30/2008	-	5,441	5,441	0.0%	11,631	46.8%

Schedule of Funding Progress – Santa Clara County Health Authority Other Postemployment Benefits:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio
6/30/2013	$ 3,085	$ 6,705	$ 3,620	46.0%
6/30/2012	2,431	5,773	3,342	42.1%
6/30/2011	2,028	5,612	3,584	36.1%

General Fund

The General Fund is the general operating fund of the County. It accounts for all financial activities except those required to be accounted for in another fund. The accompanying Budgetary Comparison Schedule represents the primary expense classification of services provided by the County through the General Fund.

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2013
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Budgetary fund balances, beginning of year	$ 274,790	$ 274,790	$ 274,790	$ -
Resources (inflows):				
Taxes	665,507	665,507	688,233	22,726
Licenses and permits	11,837	12,716	13,251	535
Fines, forfeitures, and penalties	47,547	60,080	52,834	(7,246)
Interest and investment income	8,581	8,732	5,809	(2,923)
Intergovernmental revenues	995,710	1,184,419	1,077,021	(107,398)
Charges for services	104,604	108,021	109,425	1,404
Other revenue	28,828	36,813	34,802	(2,011)
Other financing sources	14,480	14,505	17,347	2,842
Interfund transfers	263,244	309,221	77,708	(231,513)
Total resources (inflows) available for appropriation	2,140,338	2,400,014	2,076,430	(323,584)
Charges to appropriations (outflows):				
General government:				
Supervisorial District 1				
Salaries and benefits	1,081	1,088	1,022	66
Services and supplies	66	66	12	54
Total Supervisorial District 1	1,147	1,154	1,034	120
Supervisorial District 2				
Salaries and benefits	1,082	1,077	729	348
Services and supplies	66	77	26	51
Total Supervisorial District 2	1,148	1,154	755	399
Supervisorial District 3				
Salaries and benefits	1,082	1,089	1,064	25
Services and supplies	66	82	54	28
Expenditure reimbursements	-	-	1	(1)
Total Supervisorial District 3	1,148	1,171	1,119	52
Supervisorial District 4				
Salaries and benefits	1,081	1,088	1,054	34
Services and supplies	66	66	41	25
Total Supervisorial District 4	1,147	1,154	1,095	59
Supervisorial District 5				
Salaries and benefits	1,082	1,016	1,013	3
Services and supplies	66	138	131	7
Total Supervisorial District 5	1,148	1,154	1,144	10
Clerk - Board of Supervisors				
Salaries and benefits	3,215	3,242	2,806	436
Services and supplies	4,631	4,296	3,439	857
Expenditure reimbursements	(124)	(124)	(64)	(60)
Total Clerk - Board of Supervisors	7,722	7,414	6,181	1,233

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2013
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
General government (continued):				
Office of the County Executive				
Salaries and benefits	11,253	11,395	11,278	117
Services and supplies	16,374	27,640	12,479	15,161
Fixed assets	-	29	19	10
Expenditure reimbursements	(617)	(688)	(341)	(347)
Total Office of the County Executive	27,010	38,376	23,435	14,941
Controller-Treasurer				
Salaries and benefits	10,255	10,485	9,739	746
Services and supplies	10,673	12,503	9,285	3,218
Expenditure reimbursements	(37,759)	(37,759)	(37,212)	(547)
Interfund transfers	-	16,812	5,812	11,000
Total Controller-Treasurer	(16,831)	2,041	(12,376)	14,417
Tax Collector				
Salaries and benefits	6,497	6,548	6,125	423
Services and supplies	19,689	19,730	8,431	11,299
Total Tax Collector	26,186	26,278	14,556	11,722
Office of the Assessor				
Salaries and benefits	27,884	27,772	27,058	714
Services and supplies	5,284	5,717	1,394	4,323
Total Office of the Assessor	33,168	33,489	28,452	5,037
Purchasing				
Salaries and benefits	4,027	3,954	3,828	126
Services and supplies	490	590	405	185
Expenditure reimbursements	(521)	(521)	(547)	26
Total Purchasing	3,996	4,023	3,686	337
Office of Budget and Analysis - Special Programs				
Services and supplies	7,596	7,961	5,951	2,010
Interfund transfers	91,637	93,077	90,077	3,000
Total Office of Budget and Analysis - Special Programs	99,233	101,038	96,028	5,010
Office of the County Counsel				
Salaries and benefits	23,407	23,544	22,277	1,267
Services and supplies	7,112	7,204	7,033	171
Fixed assets	-	8	7	1
Expenditure reimbursements	(16,930)	(16,930)	(18,087)	1,157
Total Office of the County Counsel	13,589	13,826	11,230	2,596

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2013
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
General government (continued):				
Personnel				
Salaries and benefits	13,015	13,094	13,008	86
Services and supplies	4,431	4,636	4,496	140
Expenditure reimbursements	(4,247)	(4,247)	(4,416)	169
Interfund transfers	-	2,654	2,654	-
Total Personnel	13,199	16,137	15,742	395
Risk Management				
Salaries and benefits	1,364	1,403	1,401	2
Services and supplies	444	413	255	158
Expenditure reimbursements	(1,881)	(1,881)	(1,656)	(225)
Total Risk Management	(73)	(65)	-	(65)
Registrar of Voters				
Salaries and benefits	7,997	8,032	6,810	1,222
Services and supplies	8,359	8,266	5,929	2,337
Total Registrar of Voters	16,356	16,298	12,739	3,559
Information Services				
Salaries and benefits	6,503	5,218	5,080	138
Services and supplies	42,016	37,895	17,333	20,562
Fixed assets	5	5,046	5,018	28
Expenditure reimbursements	(1,453)	(1,536)	(1,416)	(120)
Interfund transfers	1,300	-	-	-
Total Information Services	48,371	46,623	26,015	20,608
Department of Revenue				
Salaries and benefits	8,375	8,450	7,499	951
Services and supplies	1,863	1,863	1,373	490
Total Department of Revenue	10,238	10,313	8,872	1,441
Communication				
Salaries and benefits	14,466	13,441	12,799	642
Services and supplies	6,638	18,107	10,901	7,206
Expenditure reimbursements	(5,180)	(12,560)	(6,444)	(6,116)
Total Communication	15,924	18,988	17,256	1,732
Department of Planning & Development				
Salaries and benefits	10,197	10,349	10,235	114
Services and supplies	2,510	3,149	2,818	331
Fixed assets	-	7	7	-
Expenditure reimbursements	(355)	(361)	(430)	69
Total Department of Planning & Development	12,352	13,144	12,630	514

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2013
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
General government (continued):				
Facilities and Fleet Department				
Salaries and benefits	24,604	24,817	23,255	1,562
Services and supplies	71,072	70,409	65,226	5,183
Expenditure reimbursements	(52,496)	(51,619)	(48,933)	(2,686)
Interfund transfers	26,664	28,609	27,049	1,560
Total Facilities and Fleet Department	69,844	72,216	66,597	5,619
General government - subtotals:				
Salaries and benefits	178,467	177,102	168,080	9,022
Services and supplies	209,512	230,808	157,012	73,796
Fixed assets	5	5,090	5,051	39
Expenditure reimbursements	(121,563)	(128,226)	(119,545)	(8,681)
Interfund transfers	119,601	141,152	125,592	15,560
Total general government	386,022	425,926	336,190	89,736
Public protection:				
Clerk Recorder				
Salaries and benefits	5,074	5,057	4,940	117
Services and supplies	741	806	781	25
Total Clerk Recorder	5,815	5,863	5,721	142
District Attorney				
Salaries and benefits	81,141	82,029	81,757	272
Services and supplies	15,753	16,994	16,009	985
Fixed assets	163	250	211	39
Interfund transfers	-	29	29	-
Expenditure reimbursements	(5,527)	(5,814)	(5,769)	(45)
Total District Attorney	91,530	93,488	92,237	1,251
Public Defender				
Salaries and benefits	42,119	42,917	42,714	203
Services and supplies	4,392	4,414	4,293	121
Fixed assets	-	2,500	-	2,500
Expenditure reimbursements	(338)	(349)	(349)	-
Total Public Defender	46,173	49,482	46,658	2,824
Pretrial Services				
Salaries and benefits	4,266	4,435	4,054	381
Services and supplies	820	824	530	294
Expenditure reimbursements	-	-	(3)	3
Total Pretrial Services	5,086	5,259	4,581	678
Criminal Justice Support				
Services and supplies	46,447	46,447	46,188	259
Total Criminal Justice Support	46,447	46,447	46,188	259

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2013
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Public protection (continued):				
Sheriff Administration				
Salaries and benefits	108,309	110,078	103,130	6,948
Services and supplies	16,143	18,671	15,049	3,622
Fixed assets	-	407	406	1
Expenditure reimbursements	(7,577)	(8,755)	(4,714)	(4,041)
Total Sheriff Administration	116,875	120,401	113,871	6,530
Sheriff - Department of Correction Services				
Salaries and benefits	110,180	120,177	116,164	4,013
Total Sheriff - Department of Correction Services	110,180	120,177	116,164	4,013
Department of Correction				
Salaries and benefits	28,001	28,366	25,531	2,835
Services and supplies	45,502	45,606	42,229	3,377
Fixed assets	204	394	155	239
Interfund transfers	-	27	9	18
Expenditure reimbursements	(171)	(171)	(213)	42
Total Department of Correction	73,536	74,222	67,711	6,511
Probation Department				
Salaries and benefits	111,664	112,509	109,914	2,595
Services and supplies	21,615	24,812	17,277	7,535
Fixed assets	346	397	362	35
Expenditure reimbursements	(417)	(784)	(331)	(453)
Total Probation Department	133,208	136,934	127,222	9,712
Department of Agriculture/Weights & Measures/ Animal Control				
Salaries and benefits	5,564	5,526	5,482	44
Services and supplies	2,102	2,797	2,361	436
Fixed assets	-	26	-	26
Interfund transfers	305	325	225	100
Expenditure reimbursements	(368)	(368)	(369)	1
Total Department of Agriculture/ Weights & Measures/Animal Control	7,603	8,306	7,699	607
Medical Examiner - Coroner				
Salaries and benefits	2,867	3,068	2,833	235
Services and supplies	669	748	655	93
Total Medical Examiner - Coroner	3,536	3,816	3,488	328
Public protection - subtotals:				
Salaries and benefits	499,185	514,162	496,519	17,643
Services and supplies	154,184	162,119	145,372	16,747
Fixed assets	713	3,974	1,134	2,840
Interfund transfers	305	381	263	118
Expenditure reimbursements	(14,398)	(16,241)	(11,745)	(4,496)
Total public protection	639,989	664,395	631,543	32,852

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2013
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Public ways and facilities:				
Measure B				
Services and supplies	3,742	3,742	2,401	1,341
Interfund transfers	4,447	4,447	622	3,825
Total Measure B	8,189	8,189	3,023	5,166
Health and sanitation:				
Health Services Administration				
Salaries and benefits	51,847	52,612	49,657	2,955
Services and supplies	38,294	39,162	31,101	8,061
Fixed assets	-	144	86	58
Expenditure reimbursements	(2,133)	(2,556)	(3,511)	955
Total Health Services Administration	88,008	89,362	77,333	12,029
Mental Health Bureau				
Salaries and benefits	44,663	46,219	41,369	4,850
Services and supplies	264,726	281,094	243,648	37,446
Fixed assets	-	201	178	23
Expenditure reimbursements	(3,621)	(4,291)	(4,793)	502
Total Mental Health Bureau	305,768	323,223	280,402	42,821
Custody Health Services				
Salaries and benefits	35,368	35,403	33,225	2,178
Services and supplies	11,074	11,768	11,002	766
Fixed assets	552	637	91	546
Expenditure reimbursements	(44,301)	(44,301)	(41,815)	(2,486)
Total Custody Health Services	2,693	3,507	2,503	1,004
Bureau of Alcohol & Drug Programs				
Salaries and benefits	18,274	18,196	16,649	1,547
Services and supplies	27,219	27,696	24,159	3,537
Fixed assets	-	58	50	8
Interfund transfers	-	420	-	420
Expenditure reimbursements	(1,417)	(1,499)	(1,338)	(161)
Total Bureau of Alcohol & Drug Programs	44,076	44,871	39,520	5,351
Community Outreach Program				
Salaries and benefits	8,319	8,485	8,395	90
Services and supplies	6,438	6,386	6,279	107
Fixed assets	-	13	12	1
Expenditure reimbursements	(1,890)	(1,581)	(1,438)	(143)
Total Community Outreach Program	12,867	13,303	13,248	55

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2013
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Health and sanitation (continued):				
Healthy Children				
Services and supplies	4,500	4,500	3,764	736
Total Healthy Children	4,500	4,500	3,764	736
Health and sanitation - subtotals:				
Salaries and benefits	158,471	160,915	149,295	11,620
Services and supplies	352,251	370,606	319,953	50,653
Fixed assets	552	1,053	417	636
Interfund transfers	-	420	-	420
Expenditure reimbursements	(53,362)	(54,228)	(52,895)	(1,333)
Total health and sanitation	457,912	478,766	416,770	61,996
Public assistance:				
In-House Support Services				
Services and supplies	98,471	114,651	114,636	15
Total In-House Support Services	98,471	114,651	114,636	15
Office of Affordable Housing				
Salaries and benefits	760	766	747	19
Services and supplies	138	167	111	56
Expenditure reimbursements	(931)	(960)	(858)	(102)
Total Office of Affordable Housing	(33)	(27)	-	(27)
Social Services Administration				
Salaries and benefits	245,112	248,364	243,156	5,208
Services and supplies	115,881	118,987	104,573	14,414
Fixed assets	-	699	672	27
Expenditure reimbursements	(627)	(673)	(2,779)	2,106
Total Social Services Administration	360,366	367,377	345,622	21,755
Nutrition Services to the Aged				
Salaries and benefits	960	1,052	1,051	1
Services and supplies	5,579	5,921	5,655	266
Total Nutrition Services to the Aged	6,539	6,973	6,706	267
Categorical Aids Payments				
Services and supplies	191,051	195,269	160,276	34,993
Total Categorical Aids Payments	191,051	195,269	160,276	34,993
Public assistance - subtotals:				
Salaries and benefits	246,832	250,182	244,954	5,228
Services and supplies	411,120	434,995	385,251	49,744
Fixed assets	-	699	672	27
Expenditure reimbursements	(1,558)	(1,633)	(3,637)	2,004
Total public assistance	656,394	684,243	627,240	57,003

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2013
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Debt service:				
County debt service				
Principal retirement	8,820	9,234	9,332	(98)
Interest and fiscal charges	17,205	17,205	14,375	2,830
Interfund transfers	1,071	1,071	1,035	36
Total debt service	27,096	27,510	24,742	2,768
Reserves:				
OMB Special Programs				
General government	17,847	7,405	-	7,405
Total OMB Special Programs	17,847	7,405	-	7,405
Personnel				
General government	3,200	512	-	512
Total Personnel	3,200	512	-	512
Registrar of Voters				
General government	359	359	-	359
Total Registrar of Voters	359	359	-	359
Criminal Justice Support				
Public protection	2,069	1,527	-	1,527
Total Criminal Justice Support	2,069	1,527	-	1,527
Social Services Administration				
Public assistance	2,197	2,197	-	2,197
Total Social Services Administration	2,197	2,197	-	2,197
Nutrition Services to the Aged				
Public assistance	177	90	-	90
Total Nutrition Services to the Aged	177	90	-	90
Appropriation Contingencies				
Total Appropriation Contingencies	96,921	107,294	-	107,294
Total reserves	122,770	119,384	-	119,384
Total charges to appropriations	$ 2,298,372	$ 2,408,413	$ 2,039,508	$ 368,905

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2013
(In thousands)

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows of resources	
Actual amounts (budgetary basis) "total resources" from the budgetary comparison schedule	$ 2,076,430
Differences - budget to GAAP:	
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes	(17,347)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(77,708)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	$ 1,981,375
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 2,039,508
Differences - budget to GAAP:	
Encumbrances for services and supplies ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year services are incurred or goods received for financial reporting purposes	(12,114)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(127,512)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	$ 1,899,882

The notes to the required supplementary information are an integral part of this statement.

Budgets and Budgetary Accounting

The County is a charter county and, under the general laws of the State, adopts final annual operating budgets before September 1 for all governmental funds. From the effective date of the budgets, which are adopted by the Board after public hearings, the proposed expenditures become appropriations to the various County departments. Only the Board has the authority to approve new appropriations. The County Executive has a limited authority to approve appropriation transfers of $100 between the objects within a budget unit. The Board must approve transfers among budget units and may amend the budget during the fiscal year. Unencumbered and unexpended appropriations lapse at fiscal year-end. During the year, the Board approved various supplemental appropriations.

The County also adopts budgets annually for capital projects funds. Such budgets are based on a project time frame, rather than a fiscal year, and unused appropriations are reappropriated from year to year until project completion.

Budgeted revenues and expenditures in the budgetary comparison schedule represent the original budget and the final budget modified by authorized adjustments during the year. Final budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year that were contingent upon new or additional revenue sources and reappropriated amounts for prior year encumbrances. Expenditures may not legally exceed budgeted appropriations at the budget unit level within each department. Interdepartmental expenditure reimbursements do not have the budgetary status of legal appropriations. Therefore, variances between estimated and actual reimbursements are not disclosed in the notes to the basic financial statements but are displayed in the supplemental section of the Comprehensive Annual Financial Report.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary accounting in the General Fund, special revenue funds, and capital projects funds.

Budgetary Results of Operations Reconciled to Results of Operations in Accordance with GAAP

The County's budget is based upon accounting for certain transactions on a budget basis rather than accounting principles generally accepted in the United States of America (GAAP) basis. The results of operations on a budget basis for the general, special revenue, debt service, and capital projects funds differ from operations on a GAAP basis due to the proceeds from sales of capital assets, interfund transfers, other financing sources and the inclusion of year-end encumbrances with expenditures on a budget basis. Accordingly, the results of operations presented in the accompanying budgetary comparison schedule reflect adjustments for proceeds from sales of capital assets, interfund transfers, other financing sources and encumbrances in order to provide a meaningful comparison with the adopted County budget.

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Federal Compliance Section

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Supervisors
County of Santa Clara
San José, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Santa Clara, California (the "County"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 27, 2013, except for our report on the schedule of expenditures of federal awards, as to which the date is March 28, 2014.

Our report includes emphasis of matters paragraphs discussing the County's adoption of the provisions of Governmental Accounting Standards Board Statement Nos. 60, 61, 62, and 63; the unfunded actuarial accrued liability of the County's postemployment health care benefit plan; and the deficit net positions of the Workers' Compensation, Retiree Healthcare, and Pension Obligation internal service funds. Our report includes a reference to other auditors who audited the financial statements of the Housing Authority of the County of Santa Clara; FIRST 5 Santa Clara County; the Santa Clara County Health Authority; the County Sanitation District 2 – 3 of Santa Clara County; the Santa Clara County Vector Control District; the Silicon Valley Tobacco Securitization Authority; the Santa Clara County Tobacco Securitization Corporation; and the Santa Clara County Central Fire Protection District, the South Santa Clara County Fire District, and the Los Altos Hills County Fire District (collectively, "Fire Districts"), as described in our report on the County's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Santa Clara County Health Authority, the Santa Clara County Tobacco Securitization Corporation, and the South Santa Clara County Fire District were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County's Response to Findings

The County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 27, 2013

MGO Certified Public Accountants.

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Independent Auditor's Report on Compliance
For Each Major Federal Program and
Report on Internal Control Over Compliance

The Board of Supervisors
County of Santa Clara
San José, California

Report on Compliance for Each Major Federal Program

We have audited the County of Santa Clara's, California (County) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2013. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The County's basic financial statements include the operations of the Housing Authority of the County of Santa Clara (Housing Authority), which expended $276,850,846 in federal awards, which is not included in the schedule of expenditures of federal awards, during the year ended June 30, 2013. Our audit, described below, did not include the operations of the Housing Authority because this entity engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Basis for Qualified Opinion on Temporary Assistance for Needy Families Program (CFDA No. 93.558)
As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding CFDA No. 93.558, Temporary Assistance for Needy Families, as described in finding number 2013-003 for the Special Tests & Provisions – Child Support Non-Cooperation. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Temporary Assistance for Needy Families Program (CFDA No. 93.558)
In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Temporary Assistance for Needy Families Program (CFDA No. 93.558) for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs
In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters
The results of our auditing procedures disclosed another instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-005. Our opinion on each major federal program is not modified with respect to this matter.

The County's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance
Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-003 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-004, 2013-006, and 2013-007 to be significant deficiencies.

The County's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
March 28, 2014

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COUNTY OF SANTA CLARA

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures	
U.S. Department of Agriculture				
Passed Through State Department of Social Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	None	$ 27,867,555	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	08-85173	1,376,981	
Subtotal State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				$ 29,244,536
Passed Through State Department of Public Health				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	11-10454		4,432,148
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	10-10159	79,370	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	12-10203	295,767	
Subtotal State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				375,137
Subtotal Passed Through State Department of Public Health				4,807,285
Passed Through State Department of Education				
Child Nutrition Cluster:				
School Breakfast Program	10.553	43-10439-6066435-01	141,758	
National School Lunch Program	10.555	43-10439-6066435-01	217,048	
Subtotal of Child Nutrition Cluster				358,806
Total U.S. Department of Agriculture				**34,410,627**
U.S. Department of Housing and Urban Development				
Direct Programs				
Community Development Block Grants/Entitlement Grants	14.218	--		1,514,399
Supportive Housing Program	14.235	--		719,382
Home Investment Partnerships Program	14.239	--	987,379	
Home Investment Partnerships Program	14.239	Prior Year Ending Loan Balance	14,199,468	
Subtotal Home Investment Partnerships Program				15,186,847
ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded)	14.257	--		145,563
Total U.S. Department of Housing and Urban Development				**17,566,191**
U.S. Department of Justice				
Direct Programs				
Domestic Cannabis Eradication Suppression Program	16.xxx	--		181,126
Juvenile Accountability Block Grants	16.523	--		272,764
State Criminal Alien Assistance Program	16.606	--		914,006
Public Safety Partnership and Community Policing Grants	16.710	--		178,009
DNA Backlog Reduction Program	16.741	--		230,286
ARRA - Edward Byrne Memorial Competitive Grant Program	16.808	--		172,445
Second Chance Act Prisoner Reentry Initiative	16.812	--		635,829
Equitable Sharing Program	16.922	--		8,050
Subtotal Direct Programs				2,592,515
Passed Through State Department of Alcohol and Drug				
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government	16.804	None		135,531
Passed Through City of San José				
Missing Children's Assistance	16.543	None		3,281
Public Safety Partnership and Community Policing Grants	16.710	2010-DD-BX-0618		132,177
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2315	52,722	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0071	27,117	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	None	388	
Subtotal Edward Byrne Memorial Justice Assistance Grant Program				80,227
Subtotal Passed Through City of San José				215,685
Passed Through City of Sunnyvale Police Department				
Equitable Sharing Program	16.922	CA0431600		15,220

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures	
U.S. Department of Justice (Continued)				
Passed Through California Emergency Management Agency				
Crime Victim Assistance	16.575	UV11020430	$ 29,494	
Crime Victim Assistance	16.575	UV12030430	83,931	
Crime Victim Assistance	16.575	VW12300430	349,657	
Subtotal Crime Victim Assistance				$ 463,082
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC11220430		19,763
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ10070430	14,912	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ12070430	21,159	
Subtotal Paul Coverdell Forensic Sciences Improvement Grant Program				36,071
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units of Local Government	16.804	ZP09010430	198,457	
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units of Local Government	16.804	ZA09010430	32,014	
Subtotal ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units of Local Government				230,471
Subtotal Passed Through California Emergency Management Agency				749,387
Passed Through Board of State and Community Correction				
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	CSA#365-11		91,000
Edward Byrne Memorial Justice Assistance Grant Program	16.738	BSCC 630-12	298,843	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	BSCC 673-12	182,273	
Subtotal Edward Byrne Memorial Justice Assistance Grant Program				481,116
Subtotal Passed Through Board of State and Community Correction				572,116
Total U.S. Department of Justice				**4,280,454**
U.S. Department of Transportation				
Direct Program				
Federal Aviation Administration:				
Airport Improvement Program	20.106	--		28,229
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	--		1,019
Subtotal Direct Programs				29,248

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number		Expenditures
U.S. Department of Transportation (Continued)				
Passed Through State Department of Transportation				
Highway Planning and Construction	20.205	BRLO 5937 (182)	$ 93,771	
Highway Planning and Construction	20.205	HPLUL 5937 (112)	532,317	
Highway Planning and Construction	20.205	HPLUL 5937 (163)	63,268	
Highway Planning and Construction	20.205	CML 5937 (166)	365,383	
Highway Planning and Construction	20.205	BRLO 5937 (047)	105,172	
Highway Planning and Construction	20.205	BRLO 5937 (046)	153,735	
Highway Planning and Construction	20.205	BRLO 5937 (107)	125,034	
Highway Planning and Construction	20.205	BRLO-5937 (109)	124,346	
Highway Planning and Construction	20.205	BRLS 5937 (124)	69,784	
Highway Planning and Construction	20.205	BRLO 5937 (106)	108,126	
Highway Planning and Construction	20.205	BRLS 5937 (123)	104,435	
Highway Planning and Construction	20.205	STPLZ 5937 (058)	326,765	
Highway Planning and Construction	20.205	BHLO 5937 (174)	303,161	
Highway Planning and Construction	20.205	BRLO 5937 (176)	221,885	
Highway Planning and Construction	20.205	BRLO 5937 (180)	1,669	
Highway Planning and Construction	20.205	STPL 5937 (171)	2,966,337	
Highway Planning and Construction	20.205	STPL 5937 (172)	486,000	
Highway Planning and Construction	20.205	DEMO8L 5937 (137)	188,444	
Highway Planning and Construction	20.205	BRLS 5937 (169)	8,719	
Highway Planning and Construction	20.205	HSIPL 5937 (138)	403,901	
Highway Planning and Construction	20.205	HRRRL 5937 (129)	254,946	
Highway Planning and Construction	20.205	BRLO 5937 (168)	37,963	
Highway Planning and Construction	20.205	BRL-NBIS (514)	96,750	
Highway Planning and Construction	20.205	BHLO 5937 (139)	215,918	
Highway Planning and Construction	20.205	BHLO 5937 (142)	94,166	
Highway Planning and Construction	20.205	BHLO 5937 (146)	45,159	
Highway Planning and Construction	20.205	BHLO 5937 (143)	156,902	
Highway Planning and Construction	20.205	BHLO 5937 (147)	50,059	
Highway Planning and Construction	20.205	BHLO 5937 (140)	150,337	
Highway Planning and Construction	20.205	BHLO 5937 (144)	52,568	
Highway Planning and Construction	20.205	BHLO 5937 (148)	54,668	
Highway Planning and Construction	20.205	BHLO 5937 (145)	178,025	
Highway Planning and Construction	20.205	BHLO 5937 (150)	49,065	
Highway Planning and Construction	20.205	BHLO 5937 (149)	47,319	
Highway Planning and Construction	20.205	BHLO 5937 (141)	136,085	
Highway Planning and Construction	20.205	BPMP 5937 (155)	1,029	
Highway Planning and Construction	20.205	BPMP 5937 (156)	33,079	
Highway Planning and Construction	20.205	BPMP 5937 (158)	548	
Highway Planning and Construction	20.205	BPMP 5937 (151)	11,895	
Highway Planning and Construction	20.205	BPMP 5937 (159)	481	
Highway Planning and Construction	20.205	BPMP 5937 (160)	481	
Highway Planning and Construction	20.205	BPMP 5937 (161)	481	
Highway Planning and Construction	20.205	BPMP 5937 (152)	63,272	
Highway Planning and Construction	20.205	BPMP 5937 (153)	86,397	
Highway Planning and Construction	20.205	BPMP 5937 (154)	12,550	
Highway Planning and Construction	20.205	BPMP 5937 (157)	12,030	
Highway Planning and Construction	20.205	BHLS 5937 (187)	3,014	
Highway Planning and Construction	20.205	BHLO 5937 (186)	18,648	
Subtotal Highway Planning and Construction				$ 8,616,087

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number		Expenditures
U.S. Department of Transportation (Continued)				
Passed Through State Office of Traffic Safety				
State and Community Highway Safety	20.600	None	$ 19,036	
State and Community Highway Safety	20.600	None	94,913	
Subtotal State and Community Highway Safety				$ 113,949
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	20868	25,144	
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1352	78,353	
Subtotal Minimum Penalties for Repeat Offenders for Driving While Intoxicated				103,497
Subtotal Passed Through State Office of Traffic Safety				217,446
Total U.S. Department of Transportation				**8,862,781**
U.S. Department of Treasury				
Passed Through City of Sunnyvale Police Department				
Treasury Forfeiture Fund Program	21.000	CA0431600		73,479
Total U.S. Department of Treasury				**73,479**
U.S. Department of Health and Human Services				
Direct Programs				
Enhance Safety of Children Affected by Substance Abuse	93.087	--		145,727
Projects for Assistance in Transition from Homelessness (PATH)	93.150	--		257,444
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	--		1,888,210
Centers for Disease Control and Prevention-Affordable Care Act (ACA) - Communities Putting Prevention to Work	93.520	--		1,858,579
Adoption Opportunities	93.652	--		2,519
ARRA – Grants to Health Center Programs	93.703	--		1,111,946
ARRA - Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	--		1,385,061
Health Care and Other Facilities	93.887	--		289,080
National Bioterrorism Hospital Preparedness Program	93.889	--		777,761
HIV Emergency Relief Project Grants	93.914	--		2,854,814
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	--		847,039
Block Grants for Community Mental Health Services	93.958	--		790,096
Subtotal Direct Programs				12,208,276
Passed Through State Department of Public Health				
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	None		526,496
Immunization Cooperative Agreements	93.268	11-10562		833,558
Refugee and Entrant Assistance _Discretionary Grants	93.576	11-43-90840-00	109,709	
Refugee and Entrant Assistance _Discretionary Grants	93.576	12-43-90840-00	294,716	
Subtotal Refugee and Entrant Assistance_Discretionary Grants				404,425
HIV Prevention Activities_Health Department Based	93.940	10-95291		471,379
Subtotal Passed Through State Department of Public Health				2,235,858
Passed Through Council on Aging Silicon Valley				
Aging Cluster:				
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	AP-1213-13	1,471,455	
Nutrition Services Incentive Program	93.053	AP-1213-13	864,431	
Subtotal Aging Cluster				2,335,886
Passed Through State Department of Education				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CAPP-2067		1,626,025
Passed Through State Department of Health Services				
Public Health Emergency Preparedness	93.069	None		2,105,184
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	CLPPP		79,968
PPHF 2012: Community Transformation Grants - Small Communities Program financed solely by 2012 Public Prevention and Health Funds	93.737	None		159,544
Children's Health Insurance Program	93.767	CCS Admin		487,757

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures	
U.S. Department of Health and Human Services (Continued)				
Medical Assistance Program	93.778	Foster Care	$ 750,168	
Medical Assistance Program	93.778	CHDP	617,114	
Medical Assistance Program	93.778	CCS Admin	3,087,041	
Medical Assistance Program	93.778	CCS PPC	35,549	
Subtotal Medical Assistance Program				$ 4,489,872
HIV Care Formula Grants	93.917	10-95291		716,737
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	201143 MCH	121,016	
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	201143 AFLP	176,497	
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	201143 BIH	210,442	
Subtotal Prevention and Public Health Fund (PPHF) Public Health Traineeships				507,955
Maternal and Child Health Services Block Grant to the States	93.994	201143 MCH	242,069	
Maternal and Child Health Services Block Grant to the States	93.994	201143 AFLP	60,437	
Maternal and Child Health Services Block Grant to the States	93.994	201143 BIH	230,482	
Subtotal Maternal and Child Health Services Block Grant to the States				532,988
Subtotal Passed Through State Department of Health Services				9,080,005
Passed Through State Department of Child Support Services				
Child Support Enforcement	93.563	IV-356		24,429,216
Passed Through State Department of Social Services				
Guardianship Assistance	93.090	None		1,066,158
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	None		86,768
Promoting Safe and Stable Families	93.556	None		1,069,822
Temporary Assistance for Needy Families	93.558	None		68,355,528
Refugee and Entrant Assistance_State Administered Programs	93.566	None		781,803
Refugee and Entrant Assistance_Discretionary Grants	93.576	TART1107	10,659	
Refugee and Entrant Assistance_Discretionary Grants	93.576	TART1207	13,768	
Refugee and Entrant Assistance_Discretionary Grants	93.576	TARL1109	13,478	
Subtotal Refugee and Entrant Assistance_Discretionary Grants				37,905
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	TAFO1005	21,943	
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	TAFO1106	230,429	
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	TAFO1206	189,697	
Subtotal Refugee and Entrant Assistance_Targeted Assistance Grants				442,069
Stephanie Tubbs Jones Child Welfare Services Program	93.645	None		1,352,764
Child Welfare Research Training or Demonstration	93.648	None		522,479
Foster Care_Title IV-E	93.658	None		38,348,714
Adoption Assistance	93.659	None		13,395,725
Social Services Block Grant	93.667	None		4,756,754
Chafee Foster Care Independence Program	93.674	None		462,497
Children's Health Insurance Program	93.767	None		688
Medical Assistance Program	93.778	None		55,449,390
Subtotal Passed Through State Department of Social Services				186,129,064
Passed Through National Health Care for the Homeless Council				
Health Care Innovation Awards (HCIA)	93.610	None		38,147
Passed Through State Department of Alcohol and Drugs				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	None		544,777
Block Grants for Prevention and Treatment of Substance Abuse	93.959	None		10,647,107
Subtotal Passed Through State Department of Alcohol and Drugs				11,191,884
Total U.S. Department of Health and Human Services				**249,274,361**

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number		Expenditures
U.S. Department of Homeland Security				
Passed Through the California Emergency Management Agency				
Emergency Management Performance Grants	97.042	2011-0048		$ 309,476
Homeland Security Grant Program	97.067	2010-0085	$ 2,718,314	
Homeland Security Grant Program	97.067	Cal EMA 085-00000	112,606	
Subtotal Homeland Security Grant Program				2,830,920
Buffer Zone Protection Program (BZPP)	97.078	2010-BF-T0-0020		189,325
Subtotal Passed Through California Emergency Management Agency				3,329,721
Passed Through City and County of San Francisco				
Homeland Security Grant Program	97.067	075-95017		3,261,207
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	None		227,987
Subtotal Passed Through City and County of San Francisco				3,489,194
Passed Through San Diego Office of Homeland Security				
Homeland Security Grant Program	97.067	2011-007		130,798
Total U.S. Department of Homeland Security				**6,949,713**
Total Expenditures of Federal Awards				**$ 321,417,606**

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the expenditures of all federal award programs of the County of Santa Clara, California (County), for the fiscal year ended June 30, 2013, except for the Housing Authority of the County of Santa Clara (Housing Authority) (see Note 4). The County's reporting entity is defined in Note 1 to the County's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix "ARRA" in the federal or pass-through grantor title.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 1 to the County's basic financial statements. In addition, the outstanding balance of prior year's loans that have significant continuing compliance requirements has been included in the total federal expenditures for the Home Investment Partnerships program (see Note 6) and the total federal expenditures for the State Criminal Alien Assistance Program (SCAAP) includes the awarded funds as a one-time payment that is expended as of the date received pursuant to the *SCAAP Guidance and Application*.

Note 3 – Relationship to the Financial Statements

Expenditures of federal awards are reported in the County's basic financial statements as expenditures in the General Fund and nonmajor special revenue funds, and as expenses for noncapital expenditures and as additions to capital assets for capital related expenditures in the enterprise funds. Federal award expenditures agree or can be reconciled with the amounts reported in the County's basic financial statements.

Note 4 – Housing Authority (Discretely Presented Component Unit) Federal Expenditures

The Housing Authority federal expenditures are excluded from the SEFA because the Housing Authority's federal expenditures are separately audited by other auditors. Expenditures for the programs of the Housing Authority listed below are taken from the separately issued single audit report. The programs of the Housing Authority are as follows:

U.S. Department of Housing and Urban Development Program Title	CFDA Number	Expenditures
Community Development Block Grants	14.218	$ 168,979
Shelter Plus Care	14.238	3,243,767
Moving To Work Demonstration Program	14.881	264,076,636
ARRA-Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded	14.885	8,228
Housing Voucher Cluster		
Section 8 Housing Choice Vouchers	14.871	5,792,955
Mainstream Vouchers	14.879	711,065
Family Unification Program (FUP)	14.880	1,777,124
Subtotal Housing Voucher Cluster		8,281,144
Section 8 Project-Based Cluster		
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	489,768
Lower Income Housing Assistance - Program Section 8 Moderate Rehabilitation	14.856	582,324
Subtotal - Section 8 Project-Based Cluster		1,072,092
Total Expenditure of Federal Awards		$ 276,850,846

Note 5 – Amounts Provided to Subrecipients

Of the federal expenditures presented in the SEFA, the County provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	$ 172,888
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	196,264
Community Development Block Grants/Entitlement Grants	14.218	1,215,000
Supportive Housing Program	14.235	709,058
Home Investment Partnerships Program	14.239	864,666
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	145,563
Juvenile Accountability Block Grants	16.523	92,047
Crime Victim Assistance	16.575	463,082
Edward Byrne Memorial Justice Assistance Grant Program	16.738	227,515
ARRA - Edward Byrne Memorial Justice Assistance (JAG) Program / Grants to Units of Local Government	16.804	167,005
State and Community Highway Safety	20.600	3,327
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	1,471,455
Nutrition Services Incentive Program	93.053	864,431
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	12,250
Projects for Assistance in Transition from Homelessness (PATH)	93.150	244,141
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	163,475
Centers for Disease Control and Prevention-Affordable Care Act (ACA) - Communities Putting Prevention to Work	93.520	714,785
Temporary Assistance for Needy Families	93.558	3,129,080
Refugee and Entrant Assistance_State Administered Programs	93.566	218,841
Refugee and Entrant Assistance_Discretionary Grants	93.576	25,025
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	315,220
Chafee Foster Care Independence Program	93.674	347,606
ARRA - Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	194,202
National Bioterrorism Hospital Preparedness Program	93.889	524,287
HIV Emergency Relief Project Grants	93.914	1,014,382
HIV Care Formula Grants	93.917	595,674
HIV Prevention Activities_Health Department Based	93.940	122,577
Block Grants for Community Mental Health Services	93.958	109,991
Block Grants for Prevention and Treatment of Substance Abuse	93.959	3,196,037
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	176,497
Maternal and Child Health Services Block Grant to the States	93.994	51,194
Emergency Management Performance Grants	97.042	265,916
Homeland Security Grant Program	97.067	842,085

Note 6 – Loans Outstanding

The County participates in certain federal award programs that sponsor revolving loan programs, which are administered by the County. These programs maintain servicing and trust arrangements with the County to collect loan repayments. The funds are returned to the programs upon repayment of the principal and interest. The federal government has imposed certain continuing compliance requirements with respect to the loans rendered under the Home Investment Partnerships Program (HOME). As of June 30, 2013, the total amount of HOME loans outstanding subject to continuing compliance requirements was $14,199,468, which is included in the SEFA.

Note 7 – California Department of Aging (CDA) Grants

The terms and conditions of agency contracts with CDA require agencies to display state-funded expenditures discretely along with the related federal expenditures. The following schedule is presented to comply with these requirements.

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Grant/ Contract Number	Expenditures	
			State	Federal
U.S. Department of Health and Human Services				
Pass through the Council on Aging Silicon Valley				
Special Programs for the Aging_Title III, Part C Nutrition Services	93.045	AP-1213-13	$ 462,805	$ 1,471,455
Nutrition Services Incentive Program	93.053	AP-1213-13	-	864,431

Note 8 – Program and Cluster Program Totals

The following table summarizes clusters funded by various sources or grants whose totals are not shown on the SEFA. The following table summarizes these programs:

Program Title	CFDA Number		Expenditures
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			
Passed Through State Department of Social Services	10.561	$	29,244,536
Passed Through State Department of Public Health	10.561		375,137
Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		$	29,619,673
Public Safety Partnership and Community Policing Grants			
Direct	16.710	$	178,009
Passed Through City of San José	16.710		132,177
Total Public Safety Partnership and Community Policing Grants		$	310,186
JAG Program Cluster			
Edward Byrne Memorial Justice Assistance Grant Program			
Passed Through City of San José	16.738	$	80,227
Passed Through California Emergency Management Agency	16.738		19,763
Passed Through Board of State and Community Correction	16.738		481,116
Total Edward Byrne Memorial Justice Assistance Grant Program			581,106
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government			
Passed Through State Department of Alcohol and Drug	16.804		135,531
Passed Through California Emergency Management Agency	16.804		230,471
Subtotal JAG Program / Grants to Units of Local Government			366,002
Total JAG Program Cluster		$	947,108
Equitable Sharing Program			
Direct	16.922	$	8,050
Passed Through City of Sunnyvale Police Department	16.922		15,220
Total Equitable Sharing Program		$	23,270
Minimum Penalties for Repeat Offenders for Driving While Intoxicated			
Direct	20.608	$	1,019
Passed Through State Office of Traffic Safety	20.608		103,497
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated		$	104,516
Refugee and Entrant Assistance_Discretionary Grants			
Passed Through State Department of Public Health	93.576	$	404,425
Passed Through State Department of Social Services	93.576		37,905
Total Refugee and Entrant Assistance_Discretionary Grants		$	442,330
Children's Health Insurance Program			
Passed Through State Department of Health Services	93.767	$	487,757
Passed Through State Department of Social Services	93.767		688
Total Children's Health Insurance Program		$	488,445
Medical Assistance Program			
Passed Through State Department of Health Services	93.778	$	4,489,872
Passed Through State Department of Social Services	93.778		55,449,390
Total Medical Assistance Program		$	59,939,262
Homeland Security Grant Program			
Passed Through the California Emergency Management Agency	97.067	$	2,830,920
Passed Through City and County of San Francisco	97.067		3,261,207
Passed Through San Diego Office of Homeland Security	97.067		130,798
Total Homeland Security Grant Program		$	6,222,925

Note 9 - Schedules of the California Emergency Management Agency (Cal EMA) and California Victim Compensation and Government Claims Board

California Emergency Management Agency grant expenditures:
The following represents Federal grant expenditures for Department of Justice grants passed through the California Emergency Management Agency for the fiscal year ended June 30, 2013:

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total	CFDA No. of Actual Non-match Amount
Underserved Victims Advocacy & Outreach Program	UV11020430					
Personnel Expenses	10/1/11-9/30/12		$ -	$ 7,811	$ 7,811	
Operating Expenses			29,494	-	29,494	
Total		$ 156,250	$ 29,494	$ 7,811	$ 37,305	16.575
Underserved Victims Advocacy & Outreach Program	UV12030430					
Personnel Services	10/1/12-9/30/13		$ -	$ 22,365	$ 22,365	
Operating Expenses			83,931	-	83,931	
Total		$ 145,525	$ 83,931	$ 22,365	$ 106,296	16.575
Victim Witness Assistance - Cal EMA	VW12300430					
Operating Expenses	7/1/12-6/30/13		$ 349,657	$ -	$ 349,657	
Total		$ 392,693	$ 349,657	$ -	$ 349,657	16.575
Anti-Drug Abuse Enforcement Program	DC11220430					
Operating Expenses	7/1/11-6/30/13		$ 19,763	$ -	19,763	
Total		$ 503,588	$ 19,763	$ -	$ 19,763	16.738
Paul Coverdell Forensic Sciences Improvement Grant Program	CQ10070430					
Operating Expenses	10/1/10-8/31/13		14,912	-	14,912	
Total		$ 268,215	$ 14,912	$ -	$ 14,912	16.742
Paul Coverdell Forensic Sciences Improvement Grant Program	CQ12070430					
Operating Expenses	10/1/12-12/31/13		$ 21,159	$ -	$ 21,159	
Total		$ 29,189	$ 21,159	$ -	$ 21,159	16.742
ARRA - Evidence-Based Probation Supervision	ZP09010430					
Personnel Services	4/1/10-9/30/12		$ 119,209	$ -	$ 119,209	
Operating Expenses			79,248	-	79,248	
Total		$ 1,673,075	$ 198,457	$ -	$ 198,457	16.804
ARRA - ADA Enforcement Team	ZA09010430					
Operating Expenses	3/1/10-3/31/13		$ 32,014	$ -	$ 32,014	
Total		$ 492,869	$ 32,014	$ -	$ 32,014	16.804
Emergency Management Performance Grants	2011-0048					
Personnel Expenses	7/1/11-12/31/12		$ 3,676	$ -	$ 3,676	
Operating Expenses			286,000	-	286,000	
Total		$ 458,807	$ 289,676	$ -	$ 289,676	97.042
Emergency Management Performance Grants	2011-0048					
Personnel Expenses	7/1/12-10/31/13		$ 15,953	$ -	$ 15,953	
Operating Expenses			3,847	-	3,847	
Total		$ 458,807	$ 19,800	$ -	$ 19,800	97.042
Homeland Security Grant Program	2010-0085					
Operating Expenses	10/25/10-12/31/12		$ 2,718,314	$ -	$ 2,718,314	
Total		$ 4,102,191	$ 2,718,314	$ -	$ 2,718,314	97.067
Homeland Security Grant Program	Cal EMA 085-00000					
Personnel Services	11/18/11-4/30/14		$ 7,309	$ -	$ 7,309	
Operating Expenses			105,297	-	105,297	
Total		$ 2,740,348	$ 112,606	$ -	$ 112,606	97.067
Buffer Zone Protection Program (BZPP)	2010-BF-T0-0020					
Equipment	6/10/10-2/28/13		$ 189,325	$ -	189,325	
Total		$ 195,000	$ 189,325	$ -	$ 189,325	97.078

Note 9 - Schedules of the California Emergency Management Agency (Cal EMA) and California Victim Compensation and Government Claims Board (Continued)

The following represents the California Emergency Management Agency summary of non-Federal grant expenditures for the fiscal year ended June 30, 2013. This information is included in the County's single audit report at the request of the California Emergency Management Agency.

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total
Victim Witness Assistance - Cal EMA	VW12310430				
Operating Expenses	7/1/12-6/30/13		$ 348,299	$ -	$ 348,299
Total		$ 348,299	$ 348,299	$ -	$ 348,299
Child Abuser Vertical Prosecution Program	VB 08060430				
Personnel Services	7/1/08-6/30/13		$ 6,154	$ -	$ 6,154
Total		$ 936,265	$ 6,154	$ -	$ 6,154
High Technology Theft Apprehension & Prosecution	HT 08090430				
Personnel Services	7/1/08-6/30/13		$ 19,416	$ -	$ 19,416
Total		$ 5,730,375	$ 19,416	$ -	$ 19,416

California Victim Compensation and Government Claims Board grant expenditures:

The following represents the California Victim Compensation and Government Claims Board non-Federal grant expenditures for the fiscal year ended June 30, 2013. This information is included in the County's single audit report at the request of the California Victim Compensation and Government Claims Board.

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total
Victim Witness Assistance - BOC	VCGC2060				
Personnel Services	7/1/12-6/30/15		$ 873,231	$ -	$ 873,231
Operating Expenses			156,538	-	156,538
Total		$ 3,232,326	$ 1,029,769	$ -	$ 1,029,769
Victim Witness Restitution for Crime Victims	VCGC2083				
Personnel Services	7/1/12-6/30/13		$ 293,145	$ -	$ 293,145
Total		$ 293,145	$ 293,145	$ -	$ 293,145

State Controller's Office program expenditures:

The following represents the State Controller's Office grant non-Federal expenditures for the fiscal year ended June 30, 2013. This information is included in the County's single audit report at the request of the State Controller's Office.

Program Title and Expenditure Category	Funding period	Award Amount	Actual Non-match	Actual Match	Actual Total
High Technology Theft Apprehension & Prosecution	7/1/11-9/30/12				
Personnel Services			$ 468,984	$ -	$ 468,984
Operating Expenses			23,449	-	23,449
Total		$ 1,996,440	$ 492,433	$ -	$ 492,433
High Technology Theft Apprehension & Prosecution	8/16/12-7/31/13				
Personnel Services			$ 567,463	$ -	$ 567,463
Operating Expenses			917,891	-	917,891
Equipment			54,412	-	54,412
Total		$ 1,882,955	$ 1,539,766	$ -	$ 1,539,766

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(cies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified for all major programs, except for CFDA No. 93.558, which was qualified.
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

1. CFDA No. 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
2. CFDA No. 20.205 Highway Planning and Construction
3. CFDA No. 93.558 Temporary Assistance for Needy Families
4. CFDA No. 93.563 Child Support Enforcement
5. CFDA No. 93.658 Foster Care_Title IV-E
6. CFDA No. 93.703 ARRA – Grants to Health Center Programs
7. CFDA No. 93.724 ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)

Section I – Summary of Auditor's Results (Continued)

Dollar threshold used to distinguish between Type A and Type B programs:	$3,000,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

Item 2013-001 – Material Weakness
Risk Assessment of Internal Controls Over the Financial Reporting Process

Criteria
The Santa Clara Valley Health & Hospital System Enterprise Fund (SCVHHSEF) has a fiduciary responsibility as a steward of public funds. In order to fulfill this responsibility, the SCVHHSEF has to have in place effective internal controls that serve as the first line of defense in safeguarding its assets. Additionally, these controls should be designed to ensure: (1) effective and efficient operations, (2) reliable financial reporting and (3) compliance with applicable laws and regulations. The Committee on Sponsoring Organizations of the Treadway Commission (COSO) has established a nationally recognized framework for internal control in its *Internal Control – Integrated Framework* and its related *Guidance for Smaller Public Companies: Reporting on Internal Controls over Financial Reporting*. The COSO framework establishes five elements of internal control: (1) Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; and (5) Monitoring. Risk Assessment and Monitoring are integral parts of internal control and management should periodically evaluate the risks and monitor the changes facing the SCVHHSEF especially in light of the recent changes in its control environment. This process involves evaluating both previously identified risks and potential new risks and providing assurance that (1) controls are designed properly to address significant risks and (2) controls are operating effectively.

Condition
As part of our audit procedures, we assess an organization's environment, risk assessment and monitoring of controls and determine whether internal controls have been effective over financial reporting. If controls do not exist, are poorly designed or not operating effectively, we must evaluate the control deficiency and report the deficiency to management, including whether the control deficiency is a significant deficiency or material weakness. During our audit, we noted the following internal control deficiencies:

- *Fiscal Leadership and Other Vacancies* – The SCVHHSEF has had significant turnover including the chief financial officer position and vacancies in several other key positions including the assistant controller position. As such, the SCVHHSEF has assigned major and complex financial duties and budgetary administration to the Controller and other personnel to perform in addition to their normal responsibilities.
- *Resolution of Revenue Clearing Accounts* – At June 30, 2013, the SCVHHSEF has over $46.3 million in revenue clearing accounts. The accounts are used when the SCVHHSEF do not timely apply cash receipts to receivables accrued or to the appropriate revenue accounts to close the temporary revenue clearing accounts.
- Throughout the year, the SCVHHSEF utilizes Fund 059 – Capital Projects Subfund to capture its capital project expenditures. During our audit, we noted the SCVHHSEF did not accrue project costs in the amount of $17.0 million for costs incurred during fiscal year 2012-13. The County subsequently increased the capital assets and accounts payable to properly reflect the balances at June 30, 2013.

Cause
The SCVHHSEF has had significant turnover in its fiscal leadership positions over the past two years. In addition, there have been other vacant key positions. As such, the remaining personnel had to assume additional responsibilities, which resulted in incomplete and or delays in analysis and reviews of significant accounts and financial transactions of the SCVHHSEF. In addition, significant regulatory, operational and system changes impacted the capacity of the finance personnel to perform its normal day-to-day functions.

Section II – Financial Statement Findings (Continued)

Recommendation
We recommend that the SCVHHSEF develop a succession plan and improve the depth and breadth related to its accounting personnel so that the SCVHHSEF's financial reporting activities are not dependent on a few individuals. In addition, the SCVHHSEF should perform reviews and analysis of related party transactions, revenue clearing accounts, and project payments/ contract status periodically to capture and record all significant transactions in the proper accounts and reporting period.

Management Response
SCVHHS management agrees with the above recommendation. Recruitments for the chief financial officer position and other key vacancies are in progress. SCVHHS has also requested additional budgeted positions (4.0 FTEs) to further support financial accountability and reporting.

Item 2013-002 – Significant Deficiency
Coordination of the County's Accounting Standards Implementations

Criteria
The financial reporting entity consists of (a) the primary government, (b) legally separate organizations for which the primary government is financially accountable, and (c) other organizations whose nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. As the primary government, the County's financial statements incorporate the financial statements of its blended and discretely presented component units. To ensure consistency and comparability, generally accepted accounting principles (GAAP) require an accounting principle, once adopted, to be applied consistently and that similar transactions are treated similarly for the reporting entity as a whole. Accordingly, new accounting standards should be adopted by the County and its component units in the same fiscal period.

Condition
The County adopted the provisions of GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as of July 1, 2012. The County plans to implement GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* as of July 1, 2013. During our audit, we noted the following:

- Separately audited financial statements for the Santa Clara County Vector Control District (Vector Control) showed that the Vector Control early implemented GASB Statement No. 65 and wrote off unamortized bond issuance cost of $0.2 million as of July 1, 2012.
- Separately audited financial statements for the South Santa Clara County Fire District, the County Sanitation District 2 – 3 of Santa Clara County, the Silicon Valley Tobacco Securitization Authority, and the Santa Clara County Tobacco Securitization Corporation showed that these component units did not implement GASB Statement No. 63 as of July 1, 2012.

Furthermore, the Santa Clara County Central Fire Protection District's separately audited financial statement disclosures for its pension benefit plan had inconsistent and/or incomplete information resulting in reporting deficiency comments from the Government Finance Officers' Association on the County's financial statements.

Section II – Financial Statement Findings (Continued)

Cause
The County has not developed an effective mechanism to coordinate and monitor the financial reporting processes of its separately prepared component financial statements.

Recommendation
We recommend the County develop a process to continually communicate and coordinate with the component units and their auditors to ensure that new accounting standards are adopted in the same fiscal year as the County and that accounting principles are consistently applied in the component units' standalone financial statements. In addition, the County should obtain and review the component units' draft financial statements to ascertain that the financial statements are prepared in accordance with applicable standards and all required information and disclosure are presented and available for inclusion in the County's basic financial statements.

Management Response
The Controller-Treasurer Department will communicate with its component units to ensure that new accounting standards are adopted in the same fiscal year as the County and will review the component units' financial statements to ensure that they meet applicable standards.

Section III – Federal Award Findings and Questioned Costs

Finding 2013-003 Special Tests & Provisions – Child Support Non-Cooperation

Awarding Agency: United States Department of Health and Human Services
Passed Through: State of California Department of Social Services
Program Name: Temporary Assistance for Needy Families
CFDA Number: 93.558
Award Number: Not Available
Award Year: July 1, 2012 through June 30, 2013

Criteria
A grantee is responsible for documenting special tests and provisions determinations. Under the Temporary Assistance for Needy Families (TANF) special tests and provisions requirements, the Notice of Action forms are used to ensure compliance with the special tests and provisions – child support non-cooperation and as such these forms should be properly maintained. Under TANF guidelines, participants who are sanctioned should perform the following:

If the IV-D agency determines that an individual is not cooperating, and the individual does not qualify for a good cause or other exception established by the State agency responsible for making good cause determinations…the IV-A agency must then take appropriate action by: deducting from the assistance that would otherwise be provided to the family of the individual an amount equal to not less than 25 percent of the amount of such assistance; or denying the family any assistance under the program (45 CFR section 264.30).

Condition/Context
During our testing of 9 files out of a population of 26 individuals who did not cooperate with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual for the fiscal year, we noted the following:

- 3 participant files did not have a Notice of Action form maintained with the client records, as such the reduced benefit payment was not communicated to the participant at least 10 days prior to the sanction;
- 1 participant was improperly sanctioned, as there was no indication that the participant failed to cooperate with child support, and the Notice of Action form was not sent to the participant.

Questioned Costs
Not applicable – The missing Notice of Action forms and improper sanction did not resulted in an overpayment of federal funds.

Cause and/or Effect
Lack of documentation may result in incorrect benefit reductions, thus improper benefit amounts may be issued.

Section III – Federal Award Findings and Questioned Costs (Continued)

Recommendation
We recommend that the County establish internal control policies to ensure proper record keeping of all correspondence, including Notice of Action forms, to benefit recipients. In addition, we recommend the County strengthen its internal control procedure over the benefit sanction process to ensure that sanctions are properly communicated to beneficiaries and only imposed when valid.

Department's View and Corrective Action Plan
The Social Service Agency agrees with the finding. For the four cases in question, supplements were issued for three cases on March 22, 2014 and supplement will be issued for the fourth case. Our agency provides training and written instructions for Notice of Action requirements in our agency handbooks. These instructions will be sent in the form of a reminder to all staff to ensure that timely (10-day) and appropriate NOA's are sent whenever any grant amount is changed.

Finding 2013-004 Davis-Bacon Act

Awarding Agency:	United States Department of Health and Human Services
Passed Through:	N/A – Direct program to the County's Health and Hospital System
Program Name:	ARRA – Grants to Health Care Programs (HCP)
CFDA Number:	93.703
Award Number:	C80CS16957
Award Year:	December 9, 2009 through December 31, 2012

Criteria
The Davis-Bacon Act requires all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by federal assistance funds be paid prevailing wage rates. Contractors or subcontractors must submit weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR Section 5.5). The County is responsible for enforcing the compliance of contractors and subcontractors with Davis-Bacon Act requirements. In the event that the contractor does not provide the required certified payrolls by the due date, the County should initiate timely corrective actions to ensure compliance, such as sending timely follow-up requests to the contractor and withholding payment until the certified payrolls are received.

Condition/Context
During our review of the County's compliance with the Davis-Bacon Act for the HCP program, we tested 8 items from a population of 28 certified payrolls for the HCP program. Our testing noted that the County did not document receipt of the certified payroll reports, so we were unable to verify whether the County paid the prime contractors after the County received the certified payroll reports.

Questioned Costs
Not applicable – The County subsequently received the late certified payroll reports from the prime contractors and as such are in compliance with this requirement.

Cause and/or Effect
The County did not consistently verify that laborers and mechanics employed by the contractors and subcontractors were paid prevailing wage rates before payment was released to the contractors. As a result, the County is at risk that payments may be made to contractors who do not comply with the Davis-Bacon Act requirements.

<u>Section III – Federal Award Findings and Questioned Costs (Continued)</u>

Recommendation
We recommend the County evaluate the effectiveness of its current internal control policies and review its grant agreements to ensure compliance with the Davis-Bacon Act requirements. In addition, we recommend that the County establish internal control policies and procedures to withhold release of contractor payments until receipt of certified payrolls.

Department's View and Corrective Action Plan
The Finding 2013-003-Davis Bacon Act is a duplicated finding of 2012-1 as contractors work completed and payments made prior to the finding of 2012-1. While we are confident that there were no prevailing wage violations in terms of actual payments made, we nonetheless recognized the need to improve our processes pertaining to the collection, review, and processing of Prevailing Wage documentation prior to the 2012-1 finding. Immediately following the finding of 2012-1, we implemented the SCVHHS Facilities Policy and Procedure for Certified Payrolls. We retroactively obtained all certified payroll reports.

Finding 2013-005 Eligibility

Awarding Agency:	United States Department of Health and Human Services
Passed Through:	State of California Department of Social Services
Program Name:	Foster Care_Title IV-E
CFDA Number:	93.658
Award Number:	n/a
Award Year:	July 1, 2012 through June 30, 2013

Criteria
A grantee is responsible for documenting eligibility determinations. Under the Foster Care_Title IV-E eligibility requirements, all forms used for eligibility determination should be properly re-evaluated and approved. Under Foster Care guidelines, recipient eligibility should be documented using the Approval of Family Caregiver Home Form (SOC 815 Form). This form is used to document that the foster family home provider has satisfactorily met a criminal records check with respect to perspective foster and adoptive parents (45 CFR sections 1356.3(a) and (b)).

Condition/Context
During our testing of the County's internal controls over compliance for eligibility requirements, we selected a sample of 40 participants from a population of approximately 11,470 participants. Our results identified one participant whose annual SOC 815 Form was not reviewed on a timely basis.

Questioned Costs
Not applicable – The late approval of the SOC-815 Form resulted in an overpayment of $846 that was paid from the County's non-federal funding.

Cause and/or Effect
Late redeterminations may result in incorrect eligibility determinations, thus benefits may be disbursed to ineligible participants.

Section III – Federal Award Findings and Questioned Costs (Continued)

Recommendation
We recommend that the County's Social Services Agency strengthen its monitoring controls over the eligibility determination and re-determination process to ensure the timely completion and maintenance of required documentation. Program staff should be held responsible for filing documentation and supervisors should review and monitor the process of adequately documenting determinations and re-determinations.

Department's View and Corrective Action Plan
The County's current process is to initiate the redetermination 45 days prior to the due date. This allows the eligibility worker time to receive the redetermination documents from the assigned social worker. Sometimes the Home Approvals (SOC 815) due dates are after the redetermination is due. The redetermination is completed without the SOC 815 because the SOC 815 is not due until the following month.

When the SOC 815 is not returned by the due date the County's practice is to either terminate the payment until the approval is received or request "County Only" funding because the child is still with the provider. It is the County's practice that the eligibility worker follow-up after the redetermination to be sure the home approval is received at the same time or shortly after the redetermination. When the due date for the home approval is in the same month as the redetermination and the approval has not been received, the CalWIN system will automatically terminate the payment to avoid an overpayment. Since the home approval needed for the case was not due until the following month the eligibility worker would normally set an Alert for following month to either terminate the payment or request "County Only" funding.

By the time the home approval was received it was overdue and created an overpayment from 4/1/13 to 5/6/13 for $846. Because of the Bass V Anderson lawsuit the overpayment is result of a county error and not collectable. Under the current policy the child was still with the provider, the eligibility worker would have requested "County Only" funds to pay the period where the home was not approved. Since the payment was made for that period no request to pay "County Only" funds was requested.

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding 2013-006 Davis-Bacon Act

Awarding Agency:	United States Department of Transportation
Passed Through:	State of California Department of Transportation
Program Name:	Highway Planning and Construction
CFDA Number:	20.205
Award Number:	STPL 5937 (171)
Award Year:	January 18, 2011 – Current

Criteria
The Davis-Bacon Act requires all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by federal assistance funds be paid prevailing wage rates. Contractors or subcontractors must submit weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR Section 5.5). The County is responsible for enforcing the compliance of contractors and subcontractors with Davis-Bacon Act requirements. In the event that the contractor does not provide the required certified payrolls by the due date, the County should initiate timely corrective actions to ensure compliance, such as sending timely follow-up requests to the contractor and withholding payment until the certified payrolls are received.

Condition/Context
During our review of the County's compliance with the Davis-Bacon Act for the Highway Planning and Construction Program, we tested 40 items from a population of 675 certified payrolls. Our testing noted that the County was unable to locate one of the certified payrolls from our testing sample of 40 items.

Questioned Costs
Not applicable – The County subsequently received the late certified payroll reports from the prime contractors and as such are in compliance with this requirement.

Cause and/or Effect
The County did not consistently verify the laborers and mechanics employed by the contractors and subcontractors were paid prevailing wage rates before payment was released to the contractors. There is a risk that federal funds may be paid to contractors who do not comply with the Davis-Bacon Act requirements, resulting in unallowable costs.

Recommendation
We recommend the County evaluate the effectiveness of its current internal control activities. We also recommend the County provides adequate training for all employees to ensure that the personnel are aware of specific job responsibilities and County policies.

Department's View and Corrective Action Plan
Our records indicate that the certified payroll was received by us so it apparently was misplaced when filing. Our filing staff was undergoing training during the time period in question (due to employee turnover) and was learning our filing system at the time. Staff will be made more aware of the importance of using the filing system more carefully. A request has been made to the contractor to provide another copy of the certified payroll for that week so that our records are in compliance.

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding 2013-007 Allowable Costs/Cost Principles

Awarding Agency: United States Department of Transportation
Passed Through: State of California Department of Transportation
Program Name: Highway Planning and Construction
CFDA Number: 20.205
Award Number/Year: CML 5937 (166)/March 18, 2011 – Current
HPLUL-5937 (112)/September 1, 2011 – August 20, 2013
BRLO 5937 (046)/March 9, 1998 – June 30, 2013
STPL 5937 (171)/January 18, 2011 – Current
STPL 5937 (172)/ January 28, 2011 – July 11, 2013
HSIPL 5937 (138)/ January 12, 2010 – June 19, 2013
HRRRL 5937 (129)/ April 3, 2009 – July 11, 2013
BHLO 5937 (139)/ September 2, 2009 – March 26, 2013
BHLO 5937 (140)/ September 2, 2009 – March 27, 2013
BHLO 5937 (145)/ September 2, 2009 – June 16, 2013
BPMP 5937 (153)/ April 9, 2010 – March 18, 2013

Criteria
U.S. Office of Management and Budget Circular A-102, *Grants and Cooperative Agreements with State and Local Governments* (Common Rule) requires that non-federal entities receiving federal awards (e.g., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

For vendor disbursements, the County established policies and procedures that the Principal Construction Inspectors review the invoices received to ascertain the costs incurred are within the allowable guidelines and are accurate. The Manager of Construction, as a secondary reviewer, will then review the invoices prepared by the Principal Construction Inspectors, which are then delivered to the accounts payable department for payment processing.

For payroll disbursements, the County established policies and procedures for the employee’s supervisor to review the employee’s timesheet for appropriate time charged to the program.

Condition/Context
During our review of the County’s internal controls over vendor disbursements, we noted 22 items out of 40 disbursements selected for testing (out of a population of 662 disbursements) did not have evidence of a review or an approval of the Principal Construction Inspector for payment.

In addition, during our review of the County’s internal controls over payroll, we noted 1 item out of 40 payroll disbursements selected for testing (out of a population of 1,170 transactions) did not have evidence of a review or an approval of the the supervisor.

<u>Section III – Federal Award Findings and Questioned Costs (Continued)</u>

Questioned Costs
Not applicable – Based on our review of the supporting documents provided for the items selected for testing, the expenditures tested were determined to be allowable.

Cause and/or Effect
If invoices and/or timecards are not properly reviewed and approved, there is a risk that expenditures and claims will be incorrect.

Recommendation
We recommend the County evaluate the effectiveness of its current internal controls over disbursements (payroll and non-payroll). We also recommend the County provides training for all supervisory employees to reinforce the County's disbursement policies and procedures.

Department's View and Corrective Action Plan
Disbursements - The Principal Construction Inspector failed to consistently initial each of the Progress Payments, the Principal Construction Inspector did in fact review each of them. The Principal Construction Inspector will be required to initial each payment as an indication for the review. Furthermore, the fiscal officer will check for the existence of the Principal Construction Inspector's initial prior to the final approval for payment.

Payroll - The supervisor failed to initial the timecard indicating review or approval of the employee's time before being payment was processed. Timekeepers will ensure that all the timecards are reviewed and approved by the immediate supervisor. In the event that the immediate supervisor is not avaialbe, the review and approval will be completed by the other supervisors or managers in the same division. Also, fiscal officers check for the existence of the approval's signature on the timecards when filing.

Reference Number:	**Federal Award Finding 2012-1 –** *Davis-Bacon Act*
Program Identification:	U.S. Department of Health and Human Services Passed Through N/A – Direct program to the County's Health and Hospital System CFDA No. 93.703 ARRA – Grants to Health Care Programs (HCP)
Audit Finding:	During our review of the County's compliance with the Davis-Bacon Act for the HCP program, we tested 25 items from a population of 66 certified payrolls for the HCP program. Our testing showed that the County did not perform timely follow-up of past due certified payroll reports with the prime contractors for 11 out of 25 items selected and disbursed funds prior to receipt of these past due reports. In addition, we also noted that 1 out of 25 items selected did not have certified payrolls with proper weekly information submitted.
Status:	Not corrected. See finding 2013-004.

Reference Number:	**Federal Award Finding 2012-2 –** *Procurement and Suspension and Debarment*
Program Identification:	United States Department of Health and Human Services Passed Through State of California Department of Health Services CFDA No. 93.724 ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) (CPPW)
Audit Finding:	During our review of the County's compliance with Procurement and Suspension and Debarment requirements for the CPPW program, we tested 4 contracts from a population of 12 contracts that the program had entered into or had incurred expenditures during fiscal year ended June 30, 2012. Our testing noted that the County did not maintain documentation or include a clause in 1 out of the 4 contracts tested to support that the County performed the required verification prior to entering into the contract. In addition, during our review of the County's compliance with Subrecipient Monitoring requirements for the CPPW program, we tested 8 agreements from a population of 17 subrecipient agreements that received federal funding from the County. Our subrecipient monitoring testing also noted that the County did not maintain evidence or includes a clause in the subrecipient agreement to support that the County performed the required suspension and debarment verification prior to entering into the 1 of the 8 agreements selected for testing.
Status:	Corrective action has been implemented.

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